



**Forest  
Practices  
Board**

## **Compliance Audit Reference Manual**

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*Version 7.1*

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# Forest Practices Board – Forest and Range Compliance Audit Manual

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This manual sets out the Forest Practices Board’s audit standards and processes for forest and range compliance audits. It provides direction and guidance for auditors and information for auditees.

This reference manual, as well as all approved Board policies and other information, is available at <https://www.bcfpb.ca/> or by contacting the Board at:

PO Box 9905 Stn Prov Govt  
Victoria, BC V8W 9R1  
Canada  
1-800-994-5899

Throughout the manual, the term “Board” is used to refer to the appointed board members, including the Chair. As described in the Board’s panel policy<sup>1</sup>, the term “Board” may refer to one or more Board members working in a panel. The use of “Forest Practices Board” or “FPB” refers to the entire organization, including Board members and staff.

Forest Practices Board audit standards and the guidance in this manual are based on Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence, as published by the Chartered Professional Accountants of Canada, as well as generally consistent with *Canadian Standards on Assurance Engagements (CSAE) 3001*, and the *Conformity assessment – Requirements for bodies providing audit and certification of management systems (ISO17021:2011)* and the *CPA Code of Professional Conduct (CPABC Code – June 2015)*.

If there is any conflict between this reference manual and any legislation or related regulations, the legislation or related regulations prevail.

Forest Practices Board auditors are expected to follow the direction and guidance provided in this manual. The use of the word “must” indicates those requirements from which the auditor cannot deviate. The use of the word “should” is to be interpreted as a very strong recommendation from which departures require explanation and justification in the working papers. The use of the word “may” refers to those procedures that might be considered and applied as support to specific audit processes.

No guidance of general application can be phrased to suit all circumstances or combinations of circumstances that may arise, and no substitute exists for the exercise of professional judgment in the determination of what constitutes good practice in a particular case. Professional judgment is an important part of assessing forest and range practices and the appropriateness of government’s enforcement of the *Forest and Range Practices Act* and the *Wildfire Act*.

This manual is organized into the following sections:

- **Section 1000** contains an introduction to the Forest Practices Board and FPB audits.
- **Section 2000** provides Forest Practices Board’s audit standards.
- **Section 3000** describes procedures for Forest Practices Board compliance audits.

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<sup>1</sup> This policy is on the Board’s website at: <https://www.bcfpb.ca/board/policies/general/panels-policy-assignment-duties/>

# 1000 THE FOREST PRACTICES BOARD AND AUDITS

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## 1100 FOREST PRACTICES BOARD RESPONSIBILITIES

The Forest Practices Board (FPB) was established in December 1994 and is continued today under the *Forest and Range Practices Act* (FRPA). The FPB has responsibilities under FRPA and the *Wildfire Act* (WA).

The Forest Practices Board provides assurance to the public – both locally and internationally – about forest and range practices in British Columbia. The Board also makes recommendations aimed at improving forest and range practices and legislation.

FRPA and the WA define the FPB's statutory roles and responsibilities, requiring it to:

- undertake periodic independent audits of agreement holders and government to determine compliance with FRPA and the WA;
- deal with complaints from the public; and
- report conclusions, with reasons, of investigations and audits.

In addition, the FPB must appoint auditors to carry out the periodic independent audits.

In carrying out its responsibilities, the FPB is enabled by legislation to:

- conduct special investigations;
- appeal specified determinations to the Forest Appeals Commission and join appeals launched by others;
- make recommendations following an investigation or an audit;
- follow up those recommendations; and,
- make special reports or comment publicly about matters relating generally to the FPB's duties under legislation or to a particular case investigated.

These roles and responsibilities extend to all activities described in Parts 2 to 5 and Part 6 of FRPA and Parts 1 to 3 of WA.

The FPB has the power to obtain information or records related to an audit, a special investigation or a complaint investigation (section 125 of FRPA). In addition, it can ask for the information in the form and manner it considers appropriate.

The FPB's roles and responsibilities apply to agreement holders under the *Forest Act* and *Range Act*, the BC Timber Sales Program, and various government agencies with responsibilities under relevant legislation.

The FPB reports to the public, to auditees or complainants, and to ministers with responsibilities under FRPA and WA.

## 1200 FOREST PRACTICES BOARD AUDITS

### 1210 The Audit Program

The FPB's audit program includes compliance audits of forest and range practices and audits of the appropriateness of government enforcement of FRPA and the WA. This manual applies to compliance audits. The audit standards and processes for enforcement audits are presented in a separate manual. The audit standards in this manual do not apply to special investigations or complaint investigations.

The compliance audit program examines whether forest and range practices on Crown land (and private land that is part of a tree farm licence or woodlot licence) in British Columbia are meeting the requirements of FRPA and the WA.

A "forest and range practice" as defined in FRPA, WA and regulations includes timber harvesting; road construction; road maintenance; road use; road deactivation; silviculture treatments; botanical forest product collecting; grazing; hay cutting; constructing, modifying or maintaining a range development; and fire use, control and suppression. An "obligation" would include silviculture obligations, such as meeting regeneration and free-growing obligations, road maintenance obligations, and notification and reporting obligations.

### 1220 Audit Selection

The number, type and scope of audits to be conducted each year are established by the Director of Audits in accordance with the Board's strategic priorities and budget.

To ensure audits provide a balanced picture of practices across British Columbia, the FPB randomly selects areas throughout the province, normally a district. The audit staff then reviews the forest and range resources, geographic features, operating conditions, risks to resources and other factors in each area selected. These factors are considered in conjunction with Board strategic priorities (updated annually), and the type of audit (full-scope compliance, limited-scope compliance or enforcement) is determined. Auditees are then selected based on consideration of the identified risks and priorities. For BC Timber Sales (BCTS) audits, a district within 1 of the 12 business areas within the province is selected randomly for audit.

Licences that have been audited in the previous five years are removed from the population eligible to be selected. As well, a licensee will not be subject to more than one FPB compliance audit in a single year.<sup>2</sup> This does not preclude that licence or licensee from being subject to examination by the FPB as part of a public complaint or special investigation at any time. This is described in the Board's audit frequency policy.<sup>3</sup>

Audits of forest and range practices and audits of government enforcement may be conducted on an integrated basis. Audit selections are not based on past performance.

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<sup>2</sup> It is possible that the Board may choose to audit multiple licences held by a licensee in one district or area as part of the same audit, and it is also possible that the Board may choose to audit multiple locations of one licence, such as a Tree Farm Licence, even if those locations are in different districts.

<sup>3</sup> This policy is on the Board's website at: <https://www.bcfpb.ca/board/policies/audits/policy-audit-frequency-given-licence-or-licensee/>

Prior to the initiation of the audit, the auditee is notified of their selection for audit by the Director of Audits, at least four weeks prior to the start of the audit field work.

### **1230 Forest and Range Compliance Audits**

Forest and range compliance audits assess whether the party audited has complied with FRPA and WA. Compliance audits are independent external audits undertaken to provide assurance about the state of forest and range practices on Crown land in British Columbia.

Depending on scope, audits may examine all aspects of forest and range practices, including obligations, from planning through to regeneration of Crown forests (*full-scope audit*), or they may focus on one or more forest or range practice(s) (*limited-scope audit*).

FPB audits focus on what is happening on the ground, and on determining whether the forest and range practices are compliant with FRPA and WA, and consistent with government objectives. Audit sampling is based on inherent risks to resources and potential impacts to the environment. Audits are carried out by multi-disciplinary audit teams including forest and range, engineering, biology and audit professionals.

Audit reports may include a commentary from the Board about the results of the audit, including possible recommendations, and all audit reports are distributed first to the auditee, then to the public and to the relevant government ministers.

## **2000 AUDIT STANDARDS**

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Under section 2 of the *Forest Practices Board Regulation*, the Forest Practice Board may develop standards for the purpose of its periodic independent audits. This section sets out the FPB's standards. The standards are consistent with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence, as published by the Chartered Professional Accountants of Canada, as well as generally consistent with *Canadian Standards on Assurance Engagements* (CSAE) 3001, and the *Conformity assessment – Requirements for bodies providing audit and certification of management systems* (ISO17021:2011) and the *CPA Code of Professional Conduct* (CPABC Code – June 2015)

### **2005 ETHICAL REQUIREMENTS**

*2006 Members of an audit team working on behalf of the Forest Practices Board must, by all reasonable tests, comply with their professional code of conduct and demonstrate integrity; objectivity; professional competence and due care; confidentiality and professional behaviour throughout the conduct of the audit.*

Auditors must not allow their professional judgement to be compromised by bias, conflict of interest or undue influence of others.

Auditors must utilize due care, and must maintain an objective state of mind throughout the conduct of the audit.

Auditors should conduct themselves at all times in a manner that enhances the appearance of integrity, objectivity and professionalism. Auditors should not make oral or written representations to any parties that may suggest that they are not objective.

Auditors must disclose to the Director of Audits any situation in which their objectivity, or ability to maintain their objectivity, has been compromised or put at risk.

## **2010 AUDITOR INDEPENDENCE**

*2011 Members of an audit team working on behalf of the Forest Practices Board must, by all reasonable tests, be independent, and be perceived to be independent, of the party(s) being audited throughout the conduct of the audit.*

Independence is both a frame of mind and an absence of certain types of relationships.

- (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, impartiality, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude an auditor's, integrity, impartiality, objectivity or professional skepticism had been compromised.

Auditors should conduct themselves at all times in a manner that enhances the appearance of independence, objectivity and professionalism. Auditors must be impartial. Auditors should not make oral or written representations to any parties that may suggest that they are not independent.

Before accepting an audit assignment, auditors proposing to carry out audits for the FPB must declare any possible independence conflicts to the Director of Audits. If an auditor has any questions or concerns about independence matters, he or she should refer these to the Director of Audits *before* entering into a contract with the FPB.

Should an independence concern come to the attention of an auditor after an audit has started, he or she must inform the Director of Audits immediately. The FPB reserves the right to make all final decisions regarding conflict of interest situations.

Auditors must disclose to the Director of Audits any relationship in which they are, or have been, employed or contracted either in the last two years or for a substantial time by:

- the party(s) being audited;
- any BC government ministry or agency having regulatory responsibilities under FRPA or WA; and
- enterprises that have direct ownership interests in the party(s) being audited, or are themselves directly or indirectly subsidiaries or significant investees of the party(s).

Auditors must fully disclose to the Director of Audits any relationship in which they or their spouses or immediate family members:

- own or hold in trust shares of the party(s) being audited, its parents, subsidiaries, or investees;
- have any other financial or other interest in the party(s) being audited, its parents, subsidiaries, or investees;

- owe any debts to the party(s) being audited, its parents, subsidiaries, or investees other than in the normal course of business;
- are owed money by the party(s) being audited, its parents, subsidiaries, or investees;
- have been a participant in an FPB complaint investigation related to forest and range or regulatory activities in the audit unit;
- receive financial consideration or benefits from the party(s) being audited, its parents, subsidiaries, or investees during the audit or because of it (an exception is made where accommodation, transportation, meals, and other amenities are provided by the party(s) in situations where no reasonable alternative facilities exist); or
- have any financial or other interest (e.g., own shares, directorship, financial consideration or benefits) in a competitor, or potential competitor, of the party(s) being audited.

Auditors must disclose to the Director of Audits any situation in which their independence or impartiality has been compromised or put at risk.

## **2015 PROFESSIONAL SKEPTICISM AND PROFESSIONAL JUDGEMENT**

*2016 Members of an audit team working on behalf of the Forest Practices Board shall plan and perform the audit with professional skepticism and shall exercise professional judgement.*

Professional skepticism is necessary to the critical assessment of evidence. Professional skepticism is an attitude that includes being alert to evidence that is inconsistent with other evidence obtained and information that calls into question the reliability of documents and responses to inquiries. Maintaining professional skepticism throughout the audit is necessary to ensure an auditor does not overlook unusual circumstances or use inappropriate assumptions.

Professional judgement is essential to the proper conduct of an audit. Professional judgement is necessary regarding decisions about significance, determining if sufficient appropriate audit evidence has been obtained and the appropriateness of conclusions drawn.

Professional skepticism and professional judgement need to be exercised throughout the audit.

## **2020 AUDIT PLANNING AND SUPERVISION**

*2021 Audits conducted on behalf of the Forest Practices Board must be properly planned and supervised.*

Proper planning of a Forest Practices Board audit includes:

- ensuring the audit team has the requisite range and depth of expertise necessary to successfully complete the audit;
- ensuring all audit team members are familiar with the FPB auditing standards before the audit begins;
- ensuring legal objectives applicable to the audit area are reviewed and the objectives are incorporated into the audit plan;
- reviewing third party certification commitments and any relevant reports prepared by the certifier;
- acquiring sufficient knowledge about the party(s) being audited, and the area of operations subject to audit, to make informed audit assessments;



- preparing a comprehensive audit plan and communicating it to all audit team members;
- assessing the need for, and arranging where necessary, specialized expertise on the audit team;
- reviewing reports from government ministries, FPB and other parties, pertinent to the forest and range activities that will be subject to audit;
- discussing the audit objectives with the local district office and any other applicable local agency representatives to further determine audit risk;
- identification of the functions and/or individuals within the auditee’s organization having significant direct responsibilities regarding the subject matter of the audit;
- identification of high priority aspects of the auditee’s activities that will be reviewed; and
- gathering whatever other information is needed to complete the audit planning, including forest stewardship plans (FSPs).

Appropriate supervision by the lead auditor and / or the Director of Audits is required through all stages of a Forest Practices Board audit and includes:

- instructing team members on the work they are to perform and the objectives of the work according to the audit plan;
- giving team members guidance about the judgments they are expected to make;
- ensuring that work is carried out, as planned, on a timely basis;
- ensuring that the results of the work are fully and fairly documented and support conclusions reached;
- dealing with auditing and technical problems encountered by audit team members;
- ensuring that work is carried out in a safe and efficient manner. If working with licensee staff, the FPB auditors will work under the licensee’s safety protocol. If not, the FPB will follow internal processes documented in the *Safety and Auditing Practices – March 2015* information flip). See also FPB auditing standard *2025 Auditor Safety*;
- reviewing the work of team members and documenting that review in the working papers; and
- reviewing the sufficiency and appropriateness of evidence.

## **2025 AUDITOR SAFETY**

*2026 The health and safety of employees shall be a primary consideration in all Forest Practices Board operations and activities, including compliance audits. It is every employee and contractor’s duty to ensure a safe work environment, which includes a safe work place and safe work procedures. All staff and contractors will be accountable for following safe work procedures and reporting unsafe acts and safety concerns.*

Staff and contractors are responsible for conducting their work activities and responsibilities in a manner that minimizes the chance of harm or injury to themselves, other staff, contractors or the public at large.

## **2027 STAFF / CONTRACTOR RESPONSIBILITIES**

Staff and contractors are accountable to work safely. It is their responsibility to:

- ensure that they obtain the knowledge necessary to perform their work, and understand their safety and health responsibilities including the safety rules that apply to their work;
- conduct their work activities in a manner that minimizes the chance of harm or injury to themselves, other staff / contractors or to the public;
- identify, report and where possible correct unsafe working conditions and behaviours;
- act in accordance with Forest Practice Board's safety rules and work procedures and the OHS regulations including refusing to perform unsafe work or to engage in unsafe work procedures;
- identify safety concerns and work with lead auditor to implement changes that will improve safety; and
- demonstrate personal leadership in safety through their actions.

## **2028 LEAD AUDITOR RESPONSIBILITIES**

Lead auditors are accountable to be safety leaders and to provide a safe workplace. It is the lead auditor's responsibility to:

- ensure that a safety culture exists in the workplace that promotes open, honest and transparent communications where all staff and contractors are encouraged to question work practices without hesitation or concern;
- develop and implement systems to identify and control hazards;
- ensure workers have the necessary qualifications to perform assigned work safely;
- provide staff / contractors with sufficient instruction and supervision to safely carry out their work and fulfill their health and safety responsibilities;
- provide adequate resources to safely carry out the work;
- recognize safe work behaviours and demonstrated leadership in safety;
- identify and correct unsafe work behaviours;
- undertake thorough investigations of incidents and near misses when they occur; and
- demonstrate personal leadership in safety through their actions.

## **2029 DIRECTOR OF AUDITS RESPONSIBILITIES**

The Director of Audits assumes overall responsibility for the audit, including ensuring a safe workplace for staff and contractors.

## **2030 SIGNIFICANCE**

*2031 Audit teams conducting audits on behalf of the Forest Practices Board should consider the concept of significance when planning and performing the audit.*

Significance is the measure of the importance of a noted non-compliance, and is an integral concept forming the basis of the audit report for each compliance audit. Overall compliance with the requirements of FRPA and WA is generally determined by degree of compliance, not by absolute

compliance. The number of non-compliance events or conditions and their severity should be evaluated by the auditor in forming his or her overall conclusion.

Significance is judged in relation to the reasonable prospect of a matter influencing the judgment or decisions of a reasonable party, and if so, the matter is worthy of inclusion in the audit report. This can include matters of compliance as well as those of non-compliance. A reasonable party for the purposes of the FPB's compliance audits is one that is interested in forest and range practices in the province. For example, factors that may influence the auditor's judgment as to what is significant in a particular circumstance might include the legislative, economic, social, or environmental impacts, as well as the degree of importance an event or situation holds for parties interested in forest and range practices in British Columbia.

Significance considerations will include, but are not limited to, the following:

- the topic of FRPA or WA involved
- the magnitude of the event(s) or condition(s)
- the severity of the consequences
- the environmental, social, and economic consequences of the event or condition
- the geographical area
- the frequency of occurrence (even individually not significant non-compliance events may become significant considerations if the audit reveals frequent occurrences)
- any evident public and local interest in the matter
- situations involving intentional non-compliance as opposed to accidental non-compliance

Significance decisions are ultimately matters of professional judgment for the auditor. To ensure consistency between significant findings from various audits, all audit findings and draft reports are reviewed by Board staff and the director of audits reviews all potentially significant findings either on-site or through a thorough review of audit evidence and is the signatory to all audit opinion statements.

## **2040 AUDIT EVIDENCE**

*2041 Sufficient appropriate audit evidence must be collected to support conclusions about the forest and range practices audited.*

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability in providing support for the auditor's conclusion. In addition, in some cases, the absence of information (for example, refusal by the auditee to provide requested information) is used by the auditor and, therefore, also constitutes evidence.

Audit evidence is obtained by such means as observation, inspection, measurement, computation, and inquiry and confirmation. Auditors are required to perform sufficient procedures and collect sufficient audit evidence on each audit to reduce audit risk to an appropriately low level. The determination of sufficient appropriate audit evidence calls for the exercise of professional judgment

on the part of the auditors. Most of the auditor's work in forming the assurance conclusion consists of obtaining and evaluating evidence.

*2042 Audit working papers must contain sufficient evidence of work done, audit findings, and relevant information to support conclusions reached.*

Evidence of work done should normally consist of the audit plan, completed audit checklists, notes, memoranda, audit analyses and any other relevant materials. These materials may be maintained in either paper or electronic format.

For forest and range practices audits, working paper evidence in support of findings should include:

- description of any non-compliance or failure to achieve results, related legislation, and an analysis of its significance;
- copies of documents, authorizations and approvals, contracts, etc. that are important to the basis of the audit conclusions;
- correspondence (including e-mail) from third parties;
- notes and memoranda prepared by the auditor; and
- photographs and other renderings, which are particularly important where non-compliance events or conditions are encountered.

## **2050 AUDITOR EXPERTISE**

*2051 Audit teams conducting audits on behalf of the Forest Practices Board must have recognized expertise in the forest and range practices subject to audit and in forest and range practices auditing, as applicable.*

The *Forest Practices Board Regulation* requires that auditors must, in the opinion of the Forest Practices Board be:

- (a) familiar with the relevant legislation;
- (b) capable of assessing the environmental impact of forest practices and range practices, as applicable;
- (c) capable of performing the audits in accordance with the standards of the FPB; and,
- (d) independent of the person being audited.

At least one member of an audit team must be a member of an accredited professional body approved by the Board. Approved professional bodies include the Association of British Columbia Forest Professionals, the Association of Professional Biologists of British Columbia, the Association of Professional Engineers and Geoscientists of British Columbia, the British Columbia Institute of Agrologists, as well as Chartered Professional Accountants of British Columbia.

In addition to these requirements, auditors must have recognized expertise. For the purposes of this standard, recognized expertise includes:

- a sound understanding of the forest and range practices subject to audit including sufficient pertinent operational experience;
- proficient knowledge of audit methodology as it relates to forest and range practices, including a sound understanding of the concept of audit risk; and,
- a reputation for competence.

It may be necessary for audit teams to include one or more persons with specialized expertise. Factors influencing the decision to use a specialist and, if so, the type of specialist to use should include:

- the extent of recognized expertise and audit experience available within the audit team;
- the breadth and technical complexity of the functional area as it pertains to the party(s) being audited; and,
- the need for specialist expertise in assessing the forest and range practices in relation to government objectives for forest subjects.

*2052 For each periodic independent audit, a lead auditor must be appointed by the FPB.*

Each year, the FPB will appoint qualified individuals to lead audits. It is the responsibility of the lead auditor to ensure the successful completion of the audit for which he or she is assigned, including ensuring that the audit conclusions are appropriately substantiated, the audit is properly conducted in accordance with FPB audit standards and audit work is completed effectively and efficiently. The lead auditor reports directly to the Director of Audits.

## **2060 RELIANCE ON INTERNAL CONTROLS**

*2061 In the absence of controls testing and assessment, control risk is considered high.*

Control risk in compliance audits is the risk that the auditee's forest and range practices and related controls will not prevent, detect, or correct events or conditions of non-compliance with FPRA or WA, or non-achievement of intended results in a timely fashion. In the absence of controls testing and formal assessment, control risk is, by default, considered its highest and the audit is conducted primarily through substantive testing<sup>4</sup>.

*2062 Where control risk is assessed at less than its highest, sufficient appropriate audit evidence must be obtained through tests of controls to support the auditor's assessment.*

Where the auditor assesses control risk below its highest, he or she must perform tests of controls to obtain sufficient appropriate audit evidence to support the assessed level.

## **2070 RELIANCE ON OTHER AUDITORS**

*2071 An auditor working for, or on behalf of, the FPB in the conduct of a forest or range practices audit may rely on the report and work of another auditor provided that the FPB auditor takes reasonable care to assure him or herself that such reliance is justified.*

In conducting forest and range practices audits, it may be possible for FPB auditors to place reliance on the results of certain audit procedures carried out by external certification auditors during the conduct of a certification audit. The circumstances under which this reliance may be warranted vary and the processes to do so are complex. FPB auditors must have a sound knowledge of audit principles and standards before any such reliance is planned. (Refer to section 3500 for more detail.)

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<sup>4</sup> Substantive testing entails review and consideration of supporting documentation in relation to interview responses, and verifying the compliance of practices conducted on the ground.

## 2080 AUDIT REPORTING

FPB compliance audit reporting requirements follow public sector auditing guidance as written by the Chartered Professional Accountants of Canada.

*2081 FPB compliance audit reports must describe the scope of the audit by identifying the licensee or licensees audited; specify the stated legislations against which compliance is being reported (FRPA and/or WA); as well as state that the audit was performed in accordance with the FPB audit standards including adherence to the auditor independence standards and the ethical requirements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour .*

*2082 FPB compliance audit reports must describe the audit findings sufficiently to allow readers to understand the basis upon which the audit opinion is formed.*

*2083 FPB compliance audit reports should contain the auditor's opinion as to whether the licensee has complied, in all significant respects, with the stated legislation (FRPA and/or WA).*

## 2090 QUALITY ASSURANCE

*2091 Audits conducted by, or on behalf of, the FPB must be subjected to the quality assurance process established by the Director of Audits.*

Quality assurance processes will vary depending on the objectives, scope and approach of the audit and also on the complexity of issues encountered. The Director of Audits will determine the appropriate quality assurance process to be applied.

## 2100 CONFIDENTIALITY

*2101 Auditors must not make available to third parties any information they have become aware of as a result of their involvement with a FPB audit.*

In general, auditors must not make available to third parties any information they have become aware of as a result of their involvement with a FPB audit that has not been included in the public report.

Certain information must be shared with the auditee during the audit to ensure the effectiveness of the audit process. Auditors are expected to exercise judgment in sharing information associated with a compliance audit with auditees. If in doubt, the auditor should obtain guidance from the Director of Audits.

In specific situations, such as the discovery of a significant breach, auditors are required to inform specific third parties of information collected during an audit (section 3300).

*2102 The FPB reserves the right to make available to the public any information it acquires through an FPB audit.*

The FPB is subject to the *Freedom of Information and Protection of Privacy Act* and the *Information Management Act*.



# 3000 COMPLIANCE AUDIT PROCEDURES

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The compliance audit procedures cover most circumstances that may be encountered during a FPB compliance audit, but cannot be all inclusive. These procedures are general guidelines. Different audits will utilize different procedures to varying degrees, depending on the size of the audit, the number of auditees as well as what is encountered on the ground. If an auditor or an auditee has any questions with respect to any compliance audit procedure, speak with the lead auditor or the Director of Audits.

## 3100 OVERVIEW

During the course of a FPB compliance audit, there are four, overlapping phases. These include: planning and preparation, fieldwork, analysis and reporting.

### Planning and Preparation

The planning and preparation phase of an audit begins well before the licensee is notified of the audit. At the beginning of each audit field season, the FPB audit section makes the audit selections and determines who will lead each audit and the general timing of the various audits. When a particular auditee is about to be notified, the planning and preparation for that audit begins. This work generally entails the following steps:

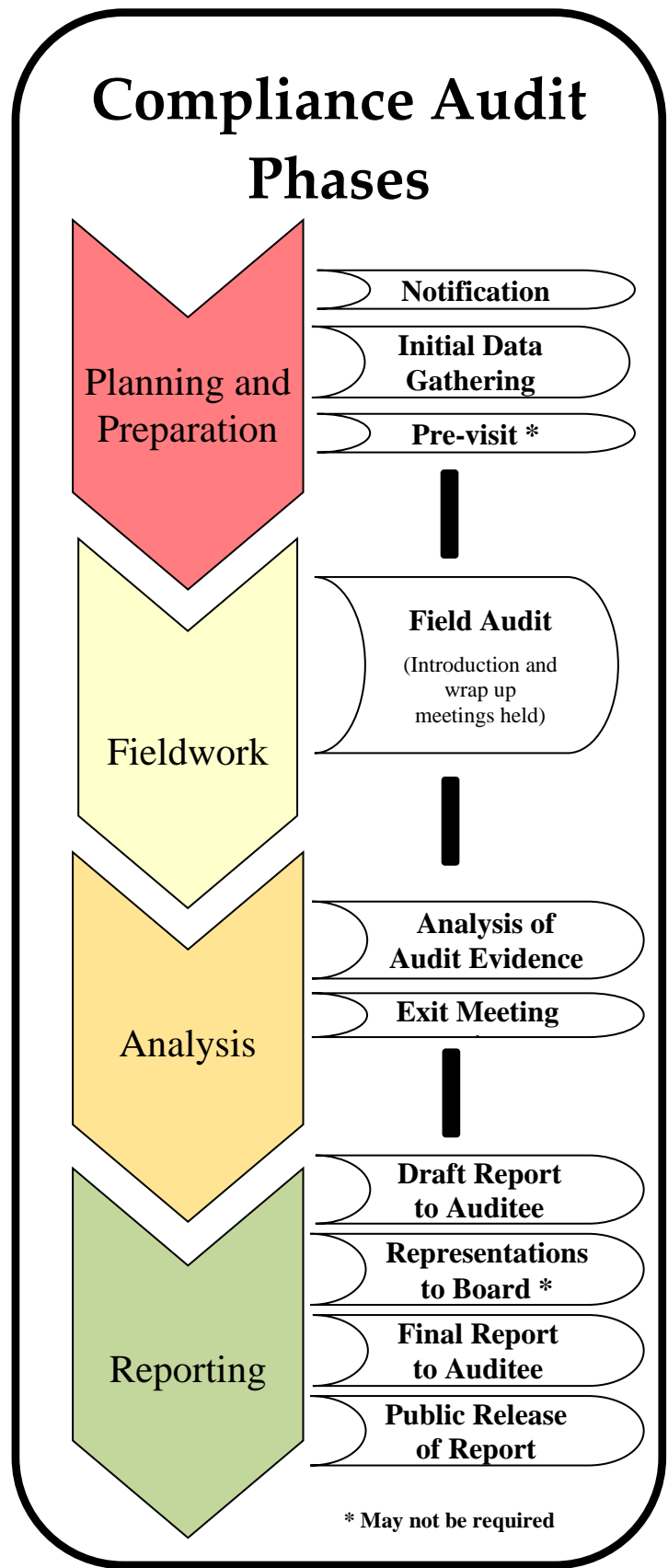
- The Director of Audits has overall responsibility for the conduct of the audit in accordance with the FPB's audit standards.
- After the Forest Practices Board appoints the lead auditors, the Director of Audits then assigns a lead auditor to manage the audit in accordance with the FPB's audit standards.
- The audit team is assigned by the Director of Audits and the lead auditor, in accordance with the FPB auditing standard 2050, *Auditor Expertise*.
- Detailed audit planning and preparation are undertaken in accordance with the FPB auditing standard 2020, *Audit Planning and Supervision*. Audit planning generally entails the following steps:
  - once an auditee has been notified of the audit by the Director of Audits, (at least four weeks prior to the start of the audit field work), the lead auditor contacts the auditee to make preliminary arrangements, including the timing of the audit and obtaining information on the activity subject to audit;
  - interviewing auditee staff and gathering information necessary to plan the audit, including identifying the forest and range activities undertaken within the audit period. A visit to the auditee's offices may or may not be required; in many cases, this information can be obtained remotely;

- ensuring that detailed work plans and checklists address objectives and commitments in the FSP and any legal objectives;
- identifying specialist expertise required to conduct the audit;
- reviewing third party certification audit working papers, where applicable;
- interviewing representatives from local government agencies (MFLNRO and MOE); and
- preparing an audit plan that describes the auditee(s), the audit scope, the operational planning undertaken by the auditee as well as important aspects of the audit such as risk areas, audit approach, anticipated reporting requirements and quality assurance processes.

### Fieldwork

Audit fieldwork entails the conduct of the audit procedures, whereby FPB auditors collect, analyze, document and interpret information, which forms the basis of the audit findings. Audit fieldwork involves both office-based and in-field procedures. The office portion is generally carried out at the auditee’s location. Audit fieldwork generally entails the following steps:

- a meeting is held with the auditee at the inception of the fieldwork to introduce the team members and obtain further information required by the auditors;





- the activities subject to audit are confirmed by the audit team;
- the audit team selects a sample of activities to assess in relation to the audit plan. This involves the auditees planning and conduct of forest and range practices, and a selection is made from populations of forest and range activities based on risk;
- audit examination and testing is conducted. This includes examining the results of forest and range practices on the ground;
- auditees are invited to accompany the auditors in the field, but it is not required;
- audit evidence is obtained in accordance with the FPB auditing standard 2040, *Audit Evidence*;
- ongoing analysis of audit evidence is performed throughout the audit fieldwork;
- the results of audit assessments are documented in the form of completed audit programs and evaluation of findings summary documents; and
- a meeting is held at the completion of the fieldwork to discuss the audit findings with the auditee. Preliminary findings are presented to provide the auditee time to consider them and whether further information is available.

### **Audit Analysis**

Audit analysis may play a minor role in an audit, or it may be the longest phase of the audit, depending on amount and type of evidence obtained during the fieldwork portion of the audit. Audit analysis generally entails the following steps:

- compilation and review of audit evidence is conducted both on and off site;
- audit findings and preliminary conclusions are documented and provided to the auditee, at which time the auditee is invited to provide a response and provide any additional relevant information;
- an exit meeting or conference call is held, where preliminary audit conclusions are discussed with the auditee; and
- final audit analysis is performed and the audit conclusions are finalized.

### **Audit Reporting**

Audit reporting begins upon completion of the audit fieldwork and subsequent analysis. Audit reporting generally entails the following steps:

- the audit team prepares a draft audit report in accordance with the FPB auditing standard 2080, *Audit Reporting*;
- the Director of Audits reviews the draft report and audit file to ensure consistency with past FPB audit reports;
- the draft report is sent to the auditee for review and comments;
- the audit team reviews the auditee comments and adjusts the draft report accordingly;
- additional FPB staff review the draft report and along with the Director of Audits, identify strategic issues arising from the audit that require Board involvement;

- the Director of Audits initiates planned quality assurance processes in accordance with the FPB auditing standard 2090, *Quality Assurance*;
- the Board, or a panel of Board members, provides direction on strategic issues and proposed commentary, if required;
- the Chair determines if the auditee is potentially adversely affected by the draft report;
- if the auditee is deemed to be potentially adversely affected, the draft audit report with Board commentary and any recommendations, is provided to the auditee;
- at the discretion of the Chair, the representations may be written or oral;
- the auditee may make representations on the draft audit report;
- the draft report is updated as necessary based on the auditee representations;
- the final draft report is signed by the Director of Audits and is presented to the Chair of the Board;
- the audit report is approved by the Chair and forwarded to the auditee seven days in advance of publicly issuing the report;
- the Board may request that the auditee, and government agencies if appropriate, report back to the Board on the actions taken to address any recommendations in the report: and
- The final report is sent to the Ministers and is posted to the Board's public website: [www.bcfpb.ca](http://www.bcfpb.ca)

## **3200 THE CONDUCT OF FOREST AND RANGE COMPLIANCE AUDITS**

Once the auditee(s) and scope have been determined (see section 1220), the main steps in compliance audits are:

- population confirmation and plan review,
- sample selection,
- testing,
- development of findings and determination of significance, where applicable,
- documentation, and
- reporting.

Each of these is described below.

### **3210 Population Confirmation and Plan Review**

There are two steps in each forest and range compliance audit that are conducted more or less in parallel: the review of plans to identify requirements and commitments that establish what compliance means for the area under the plan, and the identification of the population of activities subject to audit under the plan. Examples of populations include:

- Number of harvested blocks;
- Kilometres of road construction;
- Kilometres of road maintenance;
- Number of new bridges or major structures;

- Number of blocks planted;
- Number of blocks with silviculture treatments; and
- Number of blocks with free growing obligations due or declared.

It is important that the FPB auditors confirm that they have identified all the obligations and forest and range practices carried out by the auditee during the period of the audit. The populations of activities and obligations should be confirmed by comparing each population to independent verifiable sources, such as government's harvest billing system (HBS), forest tenures administration system (FTA) and reporting silviculture updates and land status tracking system (RESULTS).

During the planning phase, the lead auditor will have prepared a comprehensive audit plan that identifies the auditee(s) and describes the audit scope, key information obtained from the auditee on the operating area, applicable strategic and landscape-level plans, and any resource features of particular significance to the audit. Also obtained will be:

- General information about the auditee and the characteristics of the operating environment, including the auditee's certification status.
- Information on the populations of forest and range activities that have occurred in the audit unit during the period selected for audit.
- Any other commitments or features of the auditee's forest and range practices that are important to the audit.
- Population information will be confirmed as a first step in the audit fieldwork. Fieldwork includes both office-based and site-visit procedures and is generally carried out at the auditee's location.

### **3220 Sample Selection**

Once the population of activities has been confirmed, depending on the size of the populations, the auditor will either look at the entire population or a sample of the population. If the overall audit population is not too large<sup>5</sup>, the audit will examine 100 percent of the audit population.

The level of audit testing should be determined by the level of audit risk in order to reduce the chance that a significant non-compliance goes undetected. This is the rationale for risk based sampling, rather than random sampling. When a sample selection is required, the audit team will select a sample of items for examination from each population of activities planned or conducted within the audit period.

Generally, auditors will concentrate audit testing on the areas of the auditee's operations where the risk of impact to a resource feature due to forest and range practices is deemed to be high. This is called the inherent risk. This can be a function of site conditions, natural circumstances, and the particular practices involved, and includes conditions such as the susceptibility of soil to compaction or the risk of logging on steep terrain that is prone to slides. The higher the risk, the more the likelihood that a significant non-compliance or a failure to achieve specified results will occur.

The default level of audit coverage (sampling) during a FPB compliance audit is 50 to 100 percent of high inherent risk sites, 25 to 75 percent of moderate inherent risk sites and 10 to 50 percent of low inherent risk sites.

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<sup>5</sup> A manageable population of activities to audit will vary by audit depending on audit team size and location of the audit.

High risk sites	Moderate risk sites	Low risk sites
50 – 100 %	25 – 75 %	10 – 50 %

This table should be used as guidance to auditors developing the sampling strategy.

For deviations below these default bands, the Director of Audits must approve the sampling strategy. These deviations should be few and a rationale must be appended to the audit planning memo.

In contrast, based on the results of audit procedures, it may be necessary to increase the level of audit sampling. If the sampling levels are higher than the guidance, the Lead Auditor shall approve the increase and append a rationale to the audit planning memo.

### 3230 Testing

Audit evidence is obtained in accordance with the FPB auditing standard 2040, *Audit Evidence*.

Audit evidence is obtained in several ways.

- *Observation* consists of looking at the performance of forest and range practices as they are being carried out. Observation may be necessary to audit seasonal aspects of forest and range activities (such as fire tools).
- *Inspection* involves looking at records and documents, as well as looking at the results of forest and range practices on the ground. Inspection activities may range from helicopter overview to detailed examination on the ground.
- *Measurements* may include riparian and road right-of-way widths, site disturbance and distances related to various reserves.
- *Inquiries* can range from oral inquiries to formal, written inquiries. They can be made of auditees or third parties (e.g., government agencies). Answers from auditees may require corroboration, which can be obtained from inspection, observation, or computation.
- *Computation* involves checking the arithmetical accuracy of documents and records of forest and range practices, such as that of surveys conducted by the auditee or a regulatory agency. It may also involve performing independent calculations and shadow analysis involving GIS.

The extent of evidence needed varies with the circumstances. Evidence of satisfactory performance generally requires less evidence. Stronger evidence is required to support a finding of non-compliance or unsound practice.

### 3240 Develop Findings

Auditors make a preliminary assessment of compliance while they are carrying out field work. After field work is complete, more analysis is carried out to confirm or refute findings of non-compliance and to assess significance. Audits also assess whether practices are sound.

#### *Assessing Compliance*

During field work, auditors observe numerous forest and range practices. Some practices may appear to be obviously compliant, whereas others may not be as obvious. In these instances, further work

may be required to determine if the practice is or is not compliant with FRPA or WA. In addition to field observations, compliance with certain planning requirements also needs to be assessed.

Auditors thoroughly examine the evidence and consider whether practices are compliant. This will include, for example, determining whether:

- FPSs include results or strategies in relation to each objective<sup>6</sup>, or alternatively, in the case of some objectives, the auditee has undertaken to comply with certain practice requirements<sup>7</sup>.
- FSP results and strategies are consistent with objectives.
- results and strategies are measurable or verifiable and include the situations or circumstances that determine where in a forest development unit they apply.
- site plans are consistent with FSPs and identify how the intended results or strategies in FSPs apply to the site.
- results have been achieved and strategies have been carried out on the ground.
- The practice requirements of the *Forest Planning and Practices Regulation* are complied with; for example, the activity, such as harvesting or road construction, is unlikely to harm fish or damage fish habitat.
- the auditee has complied with the requirements of the WA and regulations.

The following items are only a few examples that would or might constitute non-compliance:

- failure to meet a practice requirement, such as ensuring a bridge is structurally sound and safe for use by industrial users or ensuring natural drainage patterns are maintained.
- failure to ensure that the primary forest activity does not have a material adverse effect on fish passage in a fish stream.
- failure to ensure seedlings planted comply with the *Chief Foresters Standards for Seed Use*.

### **Assessing Significance**

Significance is an integral concept forming the basis for the report for each compliance audit. Overall compliance with the requirements of FRPA and WA is generally determined by degree of compliance, not by absolute compliance. The number of non-compliance events or conditions and their severity should be evaluated by the auditor in forming his or her overall conclusion.

Significance is judged in relation to the reasonable prospect of a matter influencing the judgment or decisions of a reasonable party, and if so, the matter is worthy of inclusion in the audit report. This can include matters of compliance and of non-compliance. A reasonable party, for the purposes of the FPB's compliance audits, is one that is interested in forest and range practices in the province.

Although the audit opinion statement is signed by the Director of Audits, where a potential non-compliance has been identified, the auditor, including some or all members of the audit team as well as any required specialists, must also judge its significance. In addition, the executive staff, including General Counsel, also review every audit report to ensure all findings of significance are supported

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<sup>6</sup> Objectives include objectives prescribed in the *Forest Planning and Practices Regulation*, objectives established or continued under s.93.4 of the *Land Act*, and objectives established or continued under the *Government Actions Regulation*.

<sup>7</sup> In certain cases, licensees may choose either to propose a result or strategy or to undertake to follow practice requirements.

with sufficient appropriate audit evidence. The audit opinion will state whether or not the auditee has complied, *in all significant respects*, with FRPA and/or WA and will describe, where applicable, one or more *significant non-compliances*.

Significant non-compliance includes, but is not limited to, situations where non-compliance has resulted in harm to persons or the environment. "Harm," for the purpose of FPB's compliance audits, is defined *as an adverse change from existing conditions*. However, the FPB does not limit its assessment of significance to only those impacts that have occurred. Rather, auditors should consider the risk, or likelihood, of potential future adverse impacts resulting from non-compliant forest and range practices.

In some circumstances, an accumulation of individual non-compliances may be significant, even if each individual non-compliance is not considered significant on its own.

Non-compliance that is not significant is referred to as *not significant non-compliance*.

The determination as to whether an observation warrants reporting is ultimately a matter of judgment for the FPB auditors.

### ***Unsound Forest or Range Practices***

Unsound forest or range practices are significant identified practices that, although they are found to be in compliance with FRPA or WA, are considered to not be sound management. In these cases, the Board may wish to not only report the practices, but may also make a recommendation, either to mitigate potential harm or as a deterrent to continuing the practice in future.

These items could include a compliant forest or range activity, or activities, that is not considered sound management, and that, if repeated by the auditee, is likely to cause harm to personal safety or the environment.

- For example, where a non-professional amends a professionally developed plan in a substantial manner, without a documented, sound rationale, and without consulting a qualified registered professional — such as changing the harvest system or side-casting road building material where full bench end-haul was prescribed.
- For example, where the auditee has harvested a 60-hectare cutblock and has caused extensive soil disturbance on a 5-hectare patch of the cutblock. Although the auditee is allowed under legislation to cause 6 hectares (10%) of soil disturbance across the cutblock, the fact that the disturbance is focussed in one area is not considered sound forest management and has caused harm to the environment.
- For example, where the auditee has prepared as-built drawings as required by legislation when constructing a bridge, however the as-built drawings are lacking in detail and are not up to acceptable standards.

### ***Areas Requiring Improvement***

Areas requiring improvement are identified practices that are in non-compliance with legislation but are not considered significant. In certain cases, the Board may wish to highlight the practice as requiring improvement, but is not likely to make a recommendation.

These items could include:

- a non compliant forest or range activity, or activities, that does not meet the test of significance, but is considered a poor practice, and should not be repeated by the auditee.
- For example, where the auditee has constructed 30 kilometres of new road during the audit period, of which 28 kilometres are constructed well, but on a 2-kilometre section, there are four crossings that did not maintain the natural surface drainage patterns and were not removed at the end of construction or prior to spring freshet – contrary to legislation. While minimal harm may have occurred, this practice should not be repeated; therefore, this could be considered an area requiring improvement.
- For example, where the auditee does not conduct formal fire hazard assessments but does abate the fire hazard. Even though the fire hazard is being abated, without a formal fire hazard assessment, the auditee cannot demonstrate that it has been diligent in assessing the hazard, which is a non-compliance with legislation. This non-compliance is considered not significant since fire hazards are being abated in an effective and timely manner. As a result, this could be considered an area requiring improvement.

### *Notable Practices*

In some instances, items noted through the course of the audit may be considered a notable practice by the auditor and will be highlighted in the findings section of the audit report.

A notable practice is a common practice of the auditee that generally has a positive social or environmental effect and goes beyond compliance with legislation and industry standard practice. It is a practice that, if conducted by other licensees, could improve forest and range practices within the province.

One example from an audit was where the auditee kept a very detailed bridge ledger, recording and digitally linking construction, inspection and maintenance documents in one central, easy to follow ledger. It captured all of the necessary information for each structure, including year built, engineering designs, required sign offs as well as inspection reports and photos. This bridge database was more detailed, comprehensive and user friendly than other any other bridge ledger assessed by FPB auditors. The ledger helps the auditee ensure it has met legal requirements and minimized safety and environmental risks and is considered a notable practice. Over time, a notable practice identified in one audit may become standard practice and would no longer be considered notable when identified in a future audit.

### *Scope Limitations*

A scope limitation can occur if circumstances arise that preclude an auditor from completing all the planned audit work in a compliance audit. If this occurs, the FPB auditor should determine whether he or she has enough information and evidence to conclude on compliance/non-compliance with legislation and whether he or she has sufficient information and evidence to provide reasonable assurance that all significant breaches and other significant events or conditions of non-compliance have been identified and properly classified.

If the auditor has sufficient information and evidence in both cases, there is no scope limitation. This would be the case where the limitation(s) on planned audit work is relatively minor, does not involve higher risk areas or activities, or is susceptible to alternative, mitigating audit procedures.



If the auditor is unable to obtain sufficient appropriate audit evidence to form an audit conclusion, a limitation in scope exists. This may result in either a qualified opinion or a denial of opinion.

A **qualified opinion** is appropriate where the limitation in scope prevents the auditor from obtaining sufficient appropriate audit evidence on some aspect(s) of compliance. An example of a qualified opinion is where the majority of the audit work has been completed but one operating area is covered by snow and cannot be assessed, thereby qualifying the overall opinion.

In those cases where the limitation(s) is so pervasive or significant that the auditor has no reasonable basis for forming an overall conclusion about compliance/non-compliance, a **denial of opinion** is appropriate. An example could be where the auditee or the audit team cannot determine the roads for which the auditee is responsible, therefore the auditor cannot assess the level of compliance of the road population with confidence, so there would be a denial of opinion.

The Director of Audits should be informed of any potential scope limitation as soon as it is determined. It is the responsibility of the audit team and the auditee to attempt to remove scope limitation conditions. However, in some cases, unavoidable limitations may arise due to such factors as weather, ground conditions, seasonal factors/conditions or other limitations imposed by auditee circumstances.

### *The Effects of Remedial Action*

If the audit identifies a significant non-compliance or an area requiring improvement, and the auditee has taken action to remedy the problem, the auditor should comment on any corrective measures taken, if sufficient audit evidence is available.

In some cases, as a result of the remedial action taken prior to the field audit, it may be difficult to determine whether there was a non-compliance or whether the non-compliance was significant. In this case, the auditor may have no basis for reporting a significant non-compliance.

## **3250 Documentation**

The plans, conduct and results of audit assessments are documented as described below.

The work performed should be documented in the form of the audit plan, working papers related to population confirmation and sample selection, completed audit programs and checklists, and documentation of completed sample items, as well as specific section summary memos. This documentation may be retained in paper form, but will be primarily retained in electronic form. The documentary support for work performed on each sample item will vary, but generally would include plans, correspondence, memoranda, audit analyses and any other relevant materials.

Working paper evidence in support of findings should include:

- description of any non-compliance, an analysis of its significance, and related legislation;
- description of any unsound practice;
- copies of documents, authorizations and approvals, contracts, etc. that are important to the basis of the audit findings;
- correspondence from third parties;
- analysis and memoranda prepared by the auditor; and



- photographs and other renderings, which are particularly important where non-compliance or unsound events or conditions are encountered.

The FPB is subject to the *Freedom of Information and Protection of Privacy Act* and the *Information Management Act*.

### **3260 Audit Reporting**

The audit team prepares a draft audit report in accordance with auditing standard 2080 – Audit Reporting.

FPB compliance audit reports comprise two or possibly three main sections – Board commentary, if required, as well as audit results and audit process.

In the Board commentary section, Board members’ comments about the results of the audit are reported, possibly including recommendations. For example, the Board may wish to comment on the results of an audit in relation to other audits or special investigations conducted or speak to developing trends.

In the audit results section, six subsections are generally reported. These subsections include introduction, background, audit approach and scope, planning and practices examined, findings, and audit opinion.

**Introduction** – This section introduces the role of the Forest Practices Board, identifies the auditee(s) and speaks to the structure of the report.

**Background** – This section provides context for the audit, including a description of the licensee(s) being audited, a geographical description of the area of operations, the timing of the audit fieldwork and any other relevant background details that were factors during the audit. A map of the location of the area audited is also included in or near this section.

**Audit Approach and Scope** – This section describes the scope of the audit, the period subject to audit, the designation of the auditors and what the audit work entailed and the legislation against which the plans and practices were assessed. This section may also include a description of the relevant objectives set by government for the audit area.

**Planning and Practices Examined** – This section itemizes the plans, forest or range practices, and obligations subject to audit. This section should include a description of the activity and obligation populations as well as the size of the activity and obligation samples audited.

**Findings** – This section documents the results of the audit. This section must include details of any significant non-compliances, any areas requiring improvement, any notable practices as well as any significant breaches noted. This section may include other observations noted during the course of the audit.

In straight forward reports with no significant findings, the *Planning and Practices Examined* and *Findings* sections may be combined.

**Audit Opinion** – This section provides the Director of Audit’s opinion on the auditee’s compliance with FRPA and / or WA. The audit opinion must state if the licensee or licensees have complied, in all significant respects, with FRPA and / or WA.

The audit process section describes in general terms how a FPB compliance audit is conducted.

### **3270 Audit Opinion Statement**

If all of the forestry and range activities subject to audit are in compliance with FRPA and WA, in all significant respects, the opinion will be referred to as a "clean opinion." The statement "in all significant respects" recognizes that there may be minor, or insignificant, instances of non-compliance. If an area requiring improvement is noted, comment can be added without affecting the clean audit opinion.

A "qualified opinion" is appropriate when significant non-compliance is found, but it is not individually or collectively of a sufficient magnitude to warrant an overall negative conclusion. Qualified opinions should be limited to those situations where, although the items noted are significant as defined by the guidance in this manual, they are not representative of the overall forest or range practices carried out and do not warrant, individually or together, an overall conclusion of non-compliance.

An "adverse opinion" is an overall negative conclusion, which is appropriate when significant non-compliance is individually or collectively of sufficient magnitude to warrant an overall negative conclusion. A significant breach will normally require an adverse opinion for the functional area that the significant breach relates to, such as roads.

### **3300 SIGNIFICANT BREACH REQUIREMENTS**

The *Forest Practices Board Regulation* section 1 defines significant breach as follows:

*"With respect to a party's level of compliance with the requirements of Parts 2 to 5 of the Forest and Range Practices Act and the regulations and standards made in relation to those Parts, and a party's level of compliance with the requirements of Parts 1 and 2 of the Wildfire Act and the regulations made in relation to those Parts, a breach of one or more of those requirements that has caused or is beginning to cause significant harm to persons or the environment...."*

Auditors should be thoroughly familiar with the concept of significant breach before undertaking any audit assignment. The *Forest Practices Board Regulation* section 10 contains specific rules an auditor must follow in significant breach situations:

If an auditor identifies a probable significant breach, the auditor must:

- contact the person being audited; and
- conduct audit tests to:
- ascertain the extent of the breach; and
- address any information provided by the person being audited.

If the auditor determines, after carrying out the above requirements, that a significant breach has occurred, the auditor must immediately advise the following persons of the significant breach:

- the Board;
- the person being audited; and
- the Minister.

The above rules make reference to the auditor generically. The FPB has established specific auditor responsibilities for assessing and reporting a significant breach, set out below.

As soon as an auditor identifies a probable significant breach or a condition of significant harm to the environment, the lead auditor must be notified. The lead auditor should:

- immediately notify the Director of Audits;
- open a separate file to gather all evidence and record all actions for the investigation of the probable significant breach; and
- assess the need for additional specialist expertise.

Once the lead auditor has notified the Director of Audits, he or she should:

- begin audit tests to ascertain the extent of the breach and address any information provided by the auditee;
- determine whether a significant breach has occurred; and
- inform the Director of Audits of the results of the determination accordingly.

The Director of Audits is responsible for making all notifications about the significant breach to the auditee, the Board and the ministers immediately, as well as reporting in a timely manner to the Board any conditions of significant harm to the environment identified in an FPB audit.

## **3400 ASSESSING DUE DILIGENCE, MISTAKE OF FACT AND OFFICIALLY INDUCED ERROR**

Under FRPA, certain defences are available to parties where a suspected contravention has occurred. If a person establishes, on a balance of probabilities, that they have been duly diligent, or that there has been a reasonable mistake of fact, or that there has been officially induced error, they cannot be found to be in contravention by a statutory decision maker.

Auditors must take into consideration relevant information the auditee may wish to provide concerning due diligence, mistake of fact and officially induced error. Where the auditee provides this material, the auditor must consult with the Director of Audits who, along with the Board's legal counsel, will consider all relevant facts and assess the defence.

If an auditee establishes a defence, FPB auditors may assess whether a person other than the auditee complied with FPRA or WA in the course of acting for or at the direction of the auditee (e.g., a contractor carrying out forest or range activities).

*Due diligence* – To establish due diligence, the auditee must demonstrate that it took all reasonable care to avoid the non-compliance. When assessing "reasonable care" two key principles apply: the greater the likelihood of the non-compliance occurring, the greater the care required; the greater the potential damage, the greater the care required.

*Mistake of fact* – To establish this defence, the auditee must have reasonably and honestly believed in facts which, if true, would have meant that there was not a non-compliance. Where the auditee has relied on advice or information, it must have come from a reliable source that took reasonable steps to ascertain the facts.

*Officially induced error* – The defence of officially induced error is only available to auditees that can demonstrate that they followed the advice of an official. To establish this defence, the auditee must show that they considered their legal position, consulted an appropriate official, obtained reasonable advice, and relied on that advice in their actions.

Where any of these three tests are met by the auditee, the event or condition is not considered a non-compliance attributable to the auditee, although it may still be a reportable finding.

## **3500 AUDITING CERTIFIED LICENSEES**

Many licensees have obtained certification of their forest practices under one or more certification programs.<sup>8</sup> Forest certification involves some processes and objectives similar to those of a FPB audit. In specific instances, by evaluating and placing some reliance on certification processes, FPB auditors may be able to reduce the level of field testing on the forest practices carried out by certified licensees and still maintain high audit standards, thereby minimizing duplication of audit work performed.

The FPB is sensitive to the potential for duplication and added costs to forest licensees when undergoing multiple audits. To address these concerns, the FPB will use independent certification information and audit results to reduce field work where possible; provide audit results to certifiers to reduce their work and the associated costs to the auditee; and consider certification in assessing risk and sampling forestry activities.

This approach is only used if authorized by the auditee. If an auditee prefers that FPB auditors do not evaluate their certification systems and certification audit processes, the FPB's audit will be conducted as a standard FPB compliance audit.

In addition, if the FPB auditors determine that the rigor of the certification audit process is not sufficient, that certification systems do not adequately address FRPA and WA requirements, or the level of certification field testing on the specific licence being audited is not sufficient, then the level of field testing carried out will be the same as for auditees who are not certified.

Where an auditee has a multi-site certification—involving multiple operations, sometimes covering multiple provinces, even multiple countries—the utility of relying on this type of certification audit when conducting a focused FPB audit may be very limited.

Before reducing the level of field testing required, FPB auditors must examine, and perform tests of, a certified licensee's processes and procedures related to achieving FRPA compliance, as well as the specific audit tests carried out by the auditee's external certification auditors.<sup>9</sup> The FPB auditors must gain an understanding of the requirements of the applicable certification program, and any certification audit(s) undergone by the auditee, in relation to the requirements of FRPA. This entails visiting the auditee's office, and possibly the auditee's external auditor's offices, to review and test certification systems and the audit(s) thereof.

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<sup>8</sup> A number of international organizations have established unique programs, including standards of practice, to certify and monitor forest industry performance in the area of forest sustainability and environmental protection. These organizations include the Canadian Standards Association (CSA), Forest Stewardship Council (FSC), Sustainable Forest Initiative (SFI) and the International Organization for Standardization (ISO).

<sup>9</sup> Certification programs include a voluntary verification process whereby external auditors, through periodic audits, document and communicate a certified company's conformance to the applicable certification standards.

In undertaking audits of certified licensees, it is important for FPB auditors to understand that the objective of the audit is the same as that for all FPB audits—to assess the auditee’s compliance with FRPA and WA. As well, audit scope and reporting concepts are similar as those applicable in other FPB audits. As such, most of the audit guidance set out in this standards manual is applicable in audits of certified licensees. FPB auditors must, therefore, consider the guidance in this section in conjunction with guidance contained in other sections of this reference manual.

Certification requires companies to comply with applicable legislation (including FRPA and WA). Certified companies must have in place, and be able to demonstrate to external auditors, the effectiveness of, processes and procedures to ensure that they are complying with applicable legislation. FPB auditors should be able to examine and conduct tests of these processes, and of the work conducted by external auditors in relation to the processes.

The major difference between FPB audits of certified and non-certified licensees is in the ability to place reliance on the auditee’s control systems, (refer to section 2060), thus reducing control risk and ultimately reducing the level of substantive testing. The sampling methodology in a compliance audit of a certified licensee should consider control risk and some reliance may be placed on the work of certification auditors. Consequently, the methodology and specific audit examinations conducted in order to assess whether FRPA and WA requirements have been met may differ between certified and non-certified auditees, if the FPB chooses to place reliance on the work of the certification auditors.

The circumstances under which reliance on other auditors may be warranted vary and the processes to do so are complex (refer to Section 2070). FPB auditors must have a sound knowledge of audit principles and standards before any such reliance is assessed and ultimately, the level of reliance must be approved by the Director of Audits prior to the commencement of fieldwork.

Where the FPB auditor plans to place reliance on the work of an auditee’s external certification auditors, the FPB auditor must take care to assure him or herself that such reliance is justified. In assessing whether reliance is justified, the FPB auditor should:

- consider the professional qualifications and reputation of the certification auditors.
- consider whether the certification auditors are sufficiently independent of the auditee.
- request that the auditee formally instruct its certification auditors to provide the FPB auditors access to the relevant audit files.
- communicate with the certification auditors to ensure that they understand the objectives of a FPB audit and the type of information that the FPB auditors will require, and that they anticipate being able to furnish the FPB auditors with the required information.
- review the certification auditor’s working papers, and any related audit reports, to the extent necessary to identify areas where audit work is sufficient to place reliance.
- consider the implications of any qualifications in the certification auditor’s report.

Where the FPB auditor and the Director of Audits determine that reliance is justified, the FPB auditor will assess the extent of reliance to be placed by:

- documenting the specific procedures and results of those procedures, on which reliance is to be placed.
- re-performing a sample of the certification auditor's procedures and consider the results in light of the certification auditor's conclusions.
- obtaining written representations from the certification auditors that they are independent of the auditee and have represented to the FPB auditors any matters that could reasonably affect the opinion of the FPB auditor.

It is important to remember that it takes time and substantial additional work for FPB auditors to place reliance on the certification auditor's work as well as conduct test of controls. Therefore, these procedures should only be considered in cases where the audit period of the certification work overlaps the majority of the planned audit period for the FPB audit, sufficient certification work that is specific to the licence being audited by the FPB has been performed, the inherent risk is moderate to high, and the population of activities is large, so that the reduction in the level of substantive testing justifies the additional work in assessing controls.



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