

Land Based Winery Audits result from any of the following and no particular order:

- Risk based (for example)
 - Non compliance
 - Industry complaints including all regulatory bodies
 - News
- Mandated (for example)
 - Land Based Winery Criteria
 - Craft Distillery Criteria
- Revenue
- Random Selection
- Other



B.C. Liquor Distribution Branch Land Base Winery Audit Program

Compliance Accountant(s):

Manager / Supervisor:

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Planning

AUDIT PROJECT:			
AUDIT PERIOD:	W/P Ref	Completed By:	Reviewed By:
OBJECTIVE: There are 3 objectives of our audits of the Land Base Wineries (LBW) as follows <ol style="list-style-type: none">1) To review, assess and test the LBW's compliance with 7 criteria derived from Appendix A of the BCLDB Distribution Agreement as outlined below.2) Ensure the LBW is not operating contrary to the intent of the guidelines and regulations set forth in the BCLDB Distribution Agreement (other than Appendix A) and the Liquor Control License Act (LCL).3) Verify that the sales reported by the LBW to the LDB during the audit period is accurate and complete <u>Land Based Winery Criteria – Appendix A</u> To be a Land Based Winery, as a Licensed Winery; <ol style="list-style-type: none">1) All of your Product is made from grapes, fruit, or honey - 100 % of which is grown/produced in British Columbia;2) At your Licensed Winery Site you have two acres of grapevines if you produce grape wine; and/or two acres of fruit orchards if you produce fruit wine. You farm and use this acreage for the manufacture of your Product.3) If you produce honey wine you have a minimum of 50 bee colonies, the honey from which must be extracted and fermented at the winery site.4) A minimum of 25% of the grapes or fruit or honey used in your Licensed Winery's production is from acreage and bee colonies owned or leased by you.5) Your wine must be produced utilizing traditional wine making techniques.6) You may use wine, juice or honey acquired from other Land Based Wineries in the manufacturing of your product but may not use wine, juice or honey acquired from a Licensed Winery classified by the LDB as a Commercial Winery.7) You do not share common ownership or management with a Licensed Winery classified by the LDB as a Commercial Winery;8) Licensed Wineries that do not meet the above criteria for a Land Based Winery will be classified as a Commercial Winery and subject to the terms and conditions of the LDB's agreement with Commercial Wineries. The LDB retains the right, in its sole discretion, to determine if a Licensed Winery meets the Land Based Winery Criteria. ***Before audit of any LBW alert LDB Directors or other concerned party, to discuss any outstanding issues in regards to the LBW which might affect the overall planning of the audit.			
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Objective 1 Criteria 1

AUDIT PROJECT:			
AUDIT PERIOD:	W/P Ref	Completed By:	Reviewed By:
<p>OBJECTIVE: 1</p> <p>To ensure the LBW is in compliance with criteria 1 (All of your Product is made from grapes, fruit, or honey - 100 % of which is grown/produced in British Columbia)</p> <p>AUDIT PROCEDURES:</p> <ol style="list-style-type: none">1) For each SKU enquire / determine the source material input.2) For a sample of the LBW's products review documentation provided by the LBW to confirm it is manufactured from only 100% BC grapes/fruit/concentrate/juice.<ul style="list-style-type: none">• Purchase records for grapes or fruit• Purchase records for Juice or concentrate• Purchase records for Bulk Wine3) Examine and review the LBW's disbursement records for evidence of purchased packaged beverage alcohol or raw materials (grapes, grape or fruit juice/concentrate) that are not from BC. Document details of these purchases nature of the product purchased, volume, date of purchase. (Photo copy)<ul style="list-style-type: none">• Purchase Invoices• Bank Statements• Synoptic (Journal Ledger)4) Visit local agricultural grower site if applicable.5) Document the audit trail available for the wines that prove these wines contain only 100% BC grapes/fruit.6) Once all above records are retrieved a reasonableness check must be done to prove that the production of wine within the audit period was produced from BC grown grapes/ fruit/concentrate/juice. The yield should be comparable to total production in liters $\{[(\text{Grapes purchased} + \text{Grapes Harvested}) / 600\text{tons}] + \text{Fruit juice concentrate or bulk wine (liters)} = \text{Yield}\} \times .80 \text{ (20\% Lees)} = \text{Total Wine production}$ <p>** BCLDB distribution agreement minimum record retention requirement are outlined in Appendix B part 4</p> <p>** LCL Act, regulation 17 outlines Winery record keeping and reporting requirement</p>			
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Objective 1 Criteria 2

AUDIT PROJECT:				
AUDIT PERIOD:		W/P Ref	Completed By:	Reviewed By:
OBJECTIVE: 1 To ensure the LBW is in compliance with criteria 2 (At your Licensed Winery Site you have two acres of grapevines if you produce grape wine; and/or two acres of fruit orchards if you produce fruit wine. You farm and use this acreage for the manufacture of your Product.) AUDIT PROCEDURES: 1) Physically observe land attached to winery site: a. If land mass is not obvious to the naked eye, physically measure the size of the land using a Distance Measuring Wheel. b. Formula to calculate acreage: Length x Width (feet) = Net Square footage Net square footage / 43,560 = Acreage 2) Obtain copies of land titles and or lease agreements of all land owned and or leased by the LBW. 3) Optional – Verify with third party (municipality) ownership of property Grape Vines are generally grown on a slope in rows. One Grape Vine constitutes one plant in one row. A row can contain numerous grape vines depending on how they are spaced. Generally rows are spaced between 6 to 12 feet and grape vines within the row are spaced 3 to 5 feet from each other. On average 1600 grapevines planted per acre depending on the spacing and cultivation methods. Please refer to grape vine spacing chart for average grapevine per acre.				
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Objective 1 Criteria 3

AUDIT PROJECT:			
AUDIT PERIOD: (12month period)	W/P Ref	Completed By:	Reviewed By:
<p>OBJECTIVE: 1</p> <p>To ensure the LBW is in compliance with criteria 3 (If you produce honey wine you have a minimum of 50 bee colonies, the honey from which must be extracted and fermented at the winery site.)** If applicable</p> <p>AUDIT PROCEDURES:</p> <ol style="list-style-type: none">1) Physically count bee colonies2) Document the audit trail available that proves honey was extracted from the bee colonies and used in production. Obtain from the LBW records of honey extracted from bee colonies <p>Bee Colony - A colony of bees kept in a enclosed receptacle structure by beekeepers. Beekeepers use Hive Bees for crop pollination and Honey Production. The more common term for Hive Bees is Honeybees, although crop pollination has become a far more important purpose of keeping bees in hives.</p> <p>** BCLDB distribution agreement minimum record retention requirement are outlined in Appendix B part 4</p> <p>** LCL Act, regulation 17 outlines Winery record keeping and reporting requirements.</p>			
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Objective 1 Criteria 4

AUDIT PROJECT:			
AUDIT PERIOD:	W/P Ref	Completed By:	Reviewed By:
<p>OBJECTIVE: 1</p> <p>To ensure the LBW is in compliance with criteria 4 (A minimum of 25% of the grapes or fruit or honey used in your Licensed Winery's production is from acreage and bee colonies owned or leased by you.)</p> <p>AUDIT PROCEDURES:</p> <ol style="list-style-type: none"> 1) Verify actual total production of the LBW <ol style="list-style-type: none"> a) Summarize the packaged production reported to the CRA each month under LBW's Wine License (WL) reporting. b) Compare the annual production volumes reported to CRA in monthly WL reports for the audit period, with the LBW's internal production records. 2) Calculate the percentage of grapes used from the acreage owned or leased by the LWB <ol style="list-style-type: none"> a. Obtain internal records of Grapes (short tons) produced and used in producing wine for the audit period. b. The industry standard = 600 liters of wine produced per ton of grapes. <i>Tons x 600 = Total Liters produced using Grapes grown on LBW's acreage</i> c. Divide answer from b with total production verified in step 1 <i>Total Liters produced using Grapes grown on LBW's acreage / Total production = %</i> <i>If % is = or > 25% LBW is in compliance of this criteria</i> 3) If sufficient documentation cannot be obtained from the LBW regarding grapes produced in acreage owned or leased by the LBW, industry standards can be used to estimate grape production. As per industry experts various grapes can yield different tonnage therefore a reasonable range must be established. <ol style="list-style-type: none"> a) 450 to 600 Liters of wine yielded per ton of grapes b) 3 to 5 tons of grapes grown per acre <p>** BCLDB distribution agreement minimum record retention requirement are outlined in Appendix B part 4 ** LCL Act, regulation 17 outlines Winery record keeping and reporting requirements.</p>			
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Objective 1 Criteria 5

AUDIT PROJECT:			
AUDIT PERIOD: (12month period)	W/P Ref	Completed By:	Reviewed By:
<p>OBJECTIVE: 1 To ensure the LBW is in compliance with criteria 5 (Your wine must be produced utilizing traditional wine making techniques.)</p> <p>AUDIT PROCEDURES:</p> <p>1) Physically observe wine making process to ensure all wine is produced on site. Critical steps as outlined in the LCL Act are listed below.</p> <ul style="list-style-type: none">a. Crusher (Normally most small wineries have a crusher / destemmer -not required)b. Fermentation process must be done onsite (observe Fermentation Tanks)c. Press should be done onsite (observe Press Machine onsite) – not requiredd. Filtering of wine must be done onsite (observe Filtering equipment)e. Secure storage area for aging wines (observe Oak Barrels, Stainless Steel tanks) <p>2) Select a sample of barrels in aging area to ensure wine is physically in each of the barrels</p> <p>3) Obtain purchase invoices and or lease agreements of equipment listed above.</p> <p>** Refer to Photos of Manufacturing Equipment ** BCLDB distribution agreement minimum record retention requirement are outlined in Appendix B part 4 ** LCL Act, regulation 17 outlines Winery record keeping and reporting requirements.</p>			
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Objective 1 Criteria 6

AUDIT PROJECT:			
AUDIT PERIOD: (12month period)	W/P Ref	Completed By:	Reviewed By:
<p>OBJECTIVE: 1</p> <p>To ensure the LBW is in compliance with criteria 6 (You may use wine, juice or honey acquired from other Land Based Wineries in the manufacturing of your product but may not use wine, juice or honey acquired from a Licensed Winery classified by the LDB as a Commercial Winery.)</p> <p>AUDIT PROCEDURES:</p> <p>1) Obtain the documentation listed below from the LBW. Cross check the supplier in LDB system to ensure winery is not classified as a Commercial Winery.</p> <p>a. Purchase records grapes or fruit b. Purchase records for juice or concentrate c. Purchase record for bulk wine</p> <p>2) Examine and review the winery's disbursement records for evidence of purchased packaged beverage alcohol or raw materials (grapes, grape or fruit juice/concentrate) that are not from other LBW's. Document details of these purchases nature of the product purchased, volume, date of purchase. (Photo copy)</p> <ul style="list-style-type: none">• Purchase Invoices• Bank Statements• Synoptic (Journal Ledger) <p>** BCLDB distribution agreement minimum record retention requirement are outlined in Appendix B part 4 ** LCL Act, regulation 17 outlines Winery record keeping and reporting requirements.</p>			
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AUDIT PROJECT:				
AUDIT PERIOD: (12month period)		W/P Ref	Completed By:	Reviewed By:
OBJECTIVE: 1 To ensure the LBW is in compliance with criteria 7 (You do not share common ownership or management with a Licensed Winery classified by the LDB as a Commercial Winery)				
AUDIT PROCEDURES: 1) Complete corporate search at BCLDB head office of owners and directors of LWB to determine any connections with other businesses. Results can be cross checked to LDB system to determine if company is classified as Commercial Winery.				
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Objective 2 BCLDB Agreement

AUDIT PROJECT:				
AUDIT PERIOD: (12month period)		W/P Ref	Completed By:	Reviewed By:
OBJECTIVE: 2 Ensure the LBW is not operating contrary to the intent of the guidelines and regulations set forth in the BCLDB Distribution Agreement (other than Appendix A) AUDIT PROCEDURES: BCLDB Distribution Agreement 1) Insurance and Indemnity – Ensure LBW has adequate insurance as reasonably prudent business operator. a. Request Insurance Certificate b. If necessary follow up with insurer 2) Sale and delivery of product – Ensure all products the LBW sells under their license are registered with BCLDB. a. Print SKU list from Product productivity b. Obtain product list from LBW c. Cross Check product list to registered SKUs 3) Payments for Beverage Container Deposits and Container Recycling fees. a. Confirm with AR all container fees are paid up to date 4) Reporting Requirements and Batch Deposits a. Confirm Data Management that the LBW is current in reporting batches to the LDB b. Confirm with Banking and AR that the LBW is current in bank deposits.				
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Objective 2 LCL Act

AUDIT PROJECT:			
AUDIT PERIOD: (12month period)	W/P Ref	Completed By:	Reviewed By:
<p>OBJECTIVE: 2 Ensure the LBW is not operating contrary to the intent of the guidelines and regulations set forth in the Liquor Control License Act (LCL).</p> <p>AUDIT PROCEDURES: Liquor Control and Licensing Act</p> <p>1) Under the regulations of the Liquor Control and Licensing Act, a winery must meet minimum on-site production and facility requirements. These include:</p> <ul style="list-style-type: none">a. Produce a minimum of 4500 liters of wine per year on-site within the manufacturing facilityb. You must have enough equipment (fermentation tanks or barrels, filtering equipment and secure storage) to produce at least 4,500 liters of wine each year.c. Note: "Although some movement of product between licensed manufacturers is permitted, you must have facilities and equipment on your premises to manufacture a sizeable amount of your registered products at your licensed manufacturing site. It is contrary to the intent of the license to manufacture only a token amount on site in order to maintain a retail or on-premises consumption endorsement." Updated June 2013			
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Objective 3

AUDIT PROJECT:			
AUDIT PERIOD: (12month period)	W/P Ref	Completed By:	Reviewed By:
OBJECTIVE: 3 Verify that the sales reported by the LBW to the LDB during the audit period is accurate and complete AUDIT PROCEDURES: <div style="margin-left: 40px;"> 1) Reconcile the LBW's production with the sales reported to the LDB for the audit period. Take into account any opening and closing inventory balances at the LBW. The reconciliation would be as follows: Opening Inventory + production – Closing inventory = Sales The difference between the reported sales and calculated sales should be small and relate to tasting/promo product and allowable breakage/defective/destruction product. 2) If the LBW sells any of their wine through the BC Wine Institute VQA wine stores, obtain a summary of the following: <div style="margin-left: 60px;"> a. Shipments made to these stores during audit period b. Sales made by these stores during the audit period c. Inventories held at these stores both at the beginning and end of the audit period (Note: It is the shipments to BCWI stores that should be reflected in the reconciliation noted above.) 3) Obtain explanations from LBW of differences identified from performing the reconciliation noted above. </div> </div>			
** BCLDB distribution agreement minimum record retention requirement are outlined in Appendix B part 4 ** LCL Act, regulation 17 outlines Winery record keeping and reporting requirements.			
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**LIQUOR
DISTRIBUTION
BRANCH**

NOTES

AUDIT PROJECT:			
AUDIT PERIOD: (12month period)	W/P Ref	Completed By:	Reviewed By:
<p>1) Appendix B part 4 Land Based Wineries Reporting Requirements and Procedures</p> <p>2) Liquor Control and Licensing Act Regulation 17 – Record Keeping and Reporting Requirements</p> <p>3) Wine making Process Steps include list of required equipment.</p> <p>4) Photos of manufacturing equipment</p> <p>5) Documents Required when auditing LBW</p> <p> 1 – Print History File of LBW o:/Manufature/wineries/ 2 – Print Signed BCLDB Distribution Agreement 3 – Print Current BCLDB Distribution Agreements or know differences 4 – Print any outstanding invoice such as Container fees, batch deposits 5 – Print Audit Program</p> <p>s.13</p>			
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Hi

My name is Manager, Regulatory at BCLDB. As discussed in my conversation with on, BCLDB is planning to conduct a compliance audit of your Land Based Winery. The objectives of this audit will be to review, assess and test compliance with the criteria derived from Appendix A of the BCLDB Land Based Winery Sales Agreement (attached pg. 9).

Winery Records

To facilitate us in our audit please have your books and records available onsite for review. The documentation required is listed in Appendix B section 4 of the Land Based Winery Sales Agreement (attached pg. 20,21) and LCLA regulations Appendix A section 17 (attached pg. 2,3). We request that you have onsite documents for). A list of the documents is provided below for your convenience.

- (a) source documents including, without limiting this, business structure documents, invoices, receipts and bank statements;
- (b) records including, without limiting this, the general financial ledger, general production and inventory ledger and winemaker's journal.
- (c) records of tonnage of grapes or fruit harvested
- (d) purchase records for grapes or fruit purchased indicating the type, source and tonnage of the grapes or fruit;
- (e) purchase records for juice or concentrate purchased indicating the type, source and volume of the juice or concentrate;
- (f) purchase records for bulk and bottled wine purchased indicating the type, source and volume of the bulk and bottled wine;
- (g) purchase records for additives to wine such as alcohol and sugar indicating the source and volume of the additives;
- (h) production records for bulk and bottled wines;
- (i) records of the movement and disposition of bulk and bottled wine that is transferred from one location to another for sale or export
- (j) records of the disposition of wine by spillage, sampling and tasting.

The proposed timetable for the audit is as follows:

Start date:

Estimated time to complete: 1 to 2 days

The audit team will include the following BCLDB employees:

If you have any questions, please do not hesitate to call at

or email at

Best Regards