

CROWN AGENCIES AND CORPORATIONS

11.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

11.1 The financial statements of crown corporations and agencies of the government of Nova Scotia are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors. A list of crown corporations and agencies that prepare annual financial statements is included in Appendix II.

11.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies audited by the private sector. This section of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office. Our review of private sector audits did not extend to audits of Regional Health Boards, two of the Non-designated Organizations in the health sector, School Boards, Regional Housing Authorities, the Nova Scotia Community College or Collège de l'Acadie.

AUDITS BY THE PRIVATE SECTOR

11.3 We reviewed the financial statements audited and reports prepared by private sector auditors, being principally interested in whether:

- there were any qualifications of auditors' opinions on the financial statements;
- there was any indication of inadequate controls or accounting records;
- there was timely preparation and audit of annual financial statements; and
- there were notes to the financial statements outlining the legislated mandate of the entity.

11.4 The following are the observations resulting from our review.

Reservations of Opinion

11.5 *Sydney Steel Corporation* - The auditors issued a qualification of opinion on the Corporation's December 31, 1998 financial statements because the Corporation did not defer and amortize the cost of benefits associated with enhancements to its pension plans. If the costs had been deferred and amortized over the expected average remaining service life of the employee group, pension expense and loss would have increased by \$5 million and accrued pension obligations and deficit would have been reduced by \$25 million.

Financial Controls and Records

11.6 In certain instances, private sector auditors reported upon weaknesses in internal control in crown corporations and agencies. Many of these are not serious enough to include in this Report. However, some observations were more significant, and are summarized below.

- The auditors of the Canada-Nova Scotia Offshore Petroleum Board reported weaknesses in bank reconciliation procedures and accounts receivable monitoring and collection procedures.
- The auditors of the Halifax-Dartmouth Bridge Commission reported weaknesses in expenditure authorization procedures and recommended additional reconciliation procedures for deferred revenue. The auditors also noted a need to formally document the Commission's tangible capital assets policy.
- The auditors of Highway 104 Western Alignment Corporation noted a need to develop an annual capital budgeting process, as well as policies for accounting for capital acquisitions. The auditors also identified weaknesses in prepaid toll reconciliation procedures and controls over transponder inventory and sales.
- The auditors of the Nova Scotia Arts Council noted weaknesses in payroll records and procedures, as well as in reconciling bank, accounts payable and grants subledgers to the general ledger. The auditors also noted weaknesses in computer security and access to accounting records.
- The auditors of the Queen Elizabeth II Health Sciences Centre reported that reconciliations of major vendor accounts are not being done on a timely basis. The auditors also noted that duplicate customer numbers exist for accounts receivable and identified a need to implement a capital asset ledger.
- The auditors of the Sherbrooke Restoration Commission reported weaknesses in bank reconciliation procedures. In addition, the auditors recommended the Commission take steps to ensure computers and software are Year 2000 compliant.
- The auditors of Waterfront Development Corporation Limited reported a lack of adequate reconciliation of the accounts payable subledger to the general ledger. The auditors also recommended recording in the accounting records additional financial detail relating to out-sourced property management, as well as increasing management's review of the performance of the external property manager.
- The auditors of the Workers' Compensation Board reported a need for additional control procedures to reduce data entry errors related to benefit payments.

Timeliness of Financial Reporting

11.7 We believe the preparation, audit and release of financial statements within six months of year-end is acceptable. Financial statements and management letters of all crown corporations and agencies included in our review were completed within this time frame.

11.8 Last year we reported that the audits for the fiscal years 1995 to 1997 for Sydney Steel Corporation were not completed. The audits for these three years were finalized during the current year when a new Board of Directors was put in place.

Legislated Mandate

11.9 It is important for the reader of financial statements to be aware of the legislated mandate under which an entity operates. This is most conveniently communicated as a note to the financial statements, but can also be shown in an entity's annual report. It is recommended that all crown corporations and agencies include such a note in their financial statements.

11.10 All crown corporations and agencies included in our review complied with this recommendation.

AUDITS BY OFFICE OF THE AUDITOR GENERAL

11.11 The Office of the Auditor General is responsible for the annual financial statement audit of 26 crown corporations, agencies and funds (Appendix II). The following observations resulted from such audits conducted by the Office or by private sector auditors on behalf of the Auditor General. For the year ended March 31, 1999, the Office contracted with private sector auditors for the audit of six government agencies and funds. These audits were conducted under the direction of the Office, and the Auditor's Report for each set of financial statements was signed by the Auditor General of Nova Scotia.

Reservations of Opinion

11.12 As the result of an audit, an opinion is expressed on whether a set of financial statements present fairly the financial position of the entity at its fiscal year-end and the results of its operations for the year then ended. Where there are qualifications of audit opinion or situations in which it was not possible to render an opinion, we believe it appropriate to report on the matter.

11.13 The Auditor's Reports on the March 31, 1999 financial statements of the Nova Scotia Business Development Corporation and the Industrial Expansion Fund were qualified because approval of loan write-offs was outstanding when the statements were released. Section 23 of the Provincial Finance Act requires all such write-offs to be approved by Executive Council.

11.14 We did not encounter any other situations this year that required us to qualify or reserve our opinion on a set of financial statements, except in the case of the Public Trustee where the nature of its operations makes it impossible to provide an opinion on the completeness of its trust assets. This is not an unusual situation for trust funds.

System Weaknesses

11.15 During our audits we noted situations where accounting and control systems and procedures were deficient. Although they were not of a magnitude to require reservations of audit opinion, a number of these situations are significant enough to summarize in this Report.

11.16 *Insured Prescription Drug Plan Trust Fund (Seniors' Pharmacare)* - Last year we expressed concern about the continuing deficits of the Seniors' Pharmacare Program and that decisions regarding courses of action to address the deficits had not been made. This year, the Program incurred an additional deficit of \$11.9 million which was funded by an additional contribution by the Department of Health. We observed that a number of changes have been approved to address the financial sustainability of the Program. However, the changes became effective April 1, 1999 and their financial impact was unclear at the time of the audit.

11.17 *Nova Scotia Business Development Corporation* - Instances were observed where there was insufficient documentation to support the acceptance of a guarantee as security for a loan. In addition, weaknesses in general ledger maintenance and annual loan review procedures were reported. It was recommended that appraisals of industrial parks and malls be performed at regular intervals.

11.18 As well, during the year under audit there was a dispute between the Corporation and a loan recipient over the repayment terms of a loan. The different interpretations of the loan terms have

a significant effect on the total amount of the loan to be repaid. It was recommended that the loan repayment terms be clarified as soon as possible to avoid any loss to the Corporation.

11.19 *Nova Scotia Film Development Corporation* - It was noted that a recoupment audit performed by a public accounting firm retained by the Corporation in 1998 resulted in a significant amount of funds being recouped. It was recommended that the Corporation continue to employ recoupment audits as a safeguard for ensuring compliance with agreements it makes with film producers.

11.20 *Nova Scotia Housing Development Corporation* - The Corporation assumed program delivery responsibilities for the Rural and Native Housing Program from the Federal government as a result of the October 1, 1997 Social Housing Transfer Agreement. This was the first full year of administration by the Corporation of this Program. We encountered errors in the accounting records for this Program and noted areas where accounting procedures and controls required strengthening. In our view, the underlying cause of the errors is a lack of clear, written accounting policies and procedures for transactions under this Program.

11.21 *Nova Scotia Innovation Corporation* - Weaknesses in control over fixed assets, computer security and payroll reconciliation procedures were observed. Recommendations were made to improve financial statement disclosure with respect to public service awards. In addition, it was noted that the Corporation had not taken full advantage of opportunities to recover Harmonized Sales Tax on expenditures it had made.

11.22 *Public Trustee Trust Funds* - We observed weaknesses in the control over cash receipts and recommended that the mail book be reconciled to bank deposits on a regular and timely basis.

Legislative and Policy Compliance Weaknesses

11.23 We noted situations where there was lack of compliance with legislation or policy. Although they were not of a nature to require a reservation of audit opinion, some are significant enough to warrant discussion in this Report.

11.24 *Nova Scotia Hospital* - As we reported in previous years, Section 30 of the Hospitals Act stipulates that, 30 days after receiving a written notice of discharge, a patient is solely liable for his or her costs of maintenance as long as the individual continues to stay in a hospital. The Hospital Board of Management decided not to issue invoices or 30-day notices to these patients because the vast majority were deemed to be financially incapable of paying these costs. The practice was continued this year with the approval of the Department of Health. This practice also contravenes Section 23(1) of the Provincial Finance Act which requires the Executive Council to approve write-offs or settlements of Provincial claims against a person.

11.25 *Nova Scotia Innovation Corporation* - It was observed that an agreement of purchase and sale of assets became effective on March 31, 1999, even though it had not yet been approved by the Corporation's Board of Directors as of that date.

11.26 *Pension Funds* - Changes to the Members' Retiring Allowance Act on November 25, 1993 established the Members' Supplementary Retiring Allowances Plan. As in prior years, we recommended that there be an appropriate segregation of the accounting for and reporting of the contributions, interest, refunds and allowances associated with the supplementary plan from that of the original plan.

Financial Statement Delays

11.27 We consider the readiness of crown corporations and agencies to be a critical factor in the timely and efficient completion of our financial statement audits. The March 31, 1999 financial statements for the Nova Scotia Teachers' Pension Fund, the Public Service Superannuation Fund and the Atlantic Provinces Special Education Authority were not finalized within six months of the year end.
