

13.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

13.1 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 licensed under the Public Accountants Act. A list of crown corporations and agencies that prepare annual financial statements is included in Appendix II of this Report, on page 249.

13.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies whose financial statements are reported on by private sector auditors. 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.

13.3 The following entities did not provide us with audited financial statements and/or management letters in time for the publication of this Report.

- Sydney Steel Corporation - financial statements and management letter
- Halifax Regional School Board - management letter
- Sydney Environmental Resources Limited - financial statements and management letter

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

13.4 We reviewed the audited financial statements, 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; and
- there was timely preparation and audit of annual financial statements.

13.5 The following are the observations resulting from our review.

Reservations of Opinion

13.6 Except for the Art Gallery of Nova Scotia, none of the reports prepared by private sector auditors contained qualifications of auditors' opinions on the financial statements. As a charitable organization, the Art Gallery of Nova Scotia derives revenues from donations, special events, corporate campaigns and other sources. The completeness of this revenue is not susceptible to conclusive audit verification. This is not an unusual situation for charitable organizations.

Financial Controls and Records

13.7 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 Highway 104 Western Alignment Corporation, the auditors of the Nova Scotia Liquor Commission and the auditors of the Northern Regional Health Board all reported concerns over computer controls.
- The auditors of the Cape Breton Healthcare Complex found that there were inadequacies in the reconciliation process over vendor accounts, and bank account reconciliations were not independently approved. A deficiency in the drug inventory/general ledger interface was also identified. Also, the Complex did not have a ledger for tracking Tangible Capital Assets.
- The auditors of the Eastern Regional Health Board noted that bank reconciliations and journal entries were not reviewed by an independent person.
- The auditors of the IWK - Grace Health Centre noted significant improvement in trust fund and Foundation accounting, and made suggestions for further improvements. The auditors indicated the Centre should perform periodic reconciliations of Foundation revenue to the general ledger. Also, there was no ledger for tracking Tangible Capital Assets.
- The auditors of the Queen Elizabeth II Health Sciences Centre noted findings which could result in reduced revenue to the hospital, such as outpatients not completely registered, incomplete information on requests for private and semi-private rooms, and incorrect data regarding the number of days which a patient had occupied a bed. Also, there was no ledger for tracking Tangible Capital Assets.
- The auditors of the Annapolis Valley Regional School Board recommended that controls over school level fundraising activities be reviewed at the school level.
- The auditors of the College de l'Acadie reported that it had initiated a policy of paying its vendors electronically. However, only one password was required for funds transfer, and that was held by a staff member with incompatible functions.
- The auditors of the Nova Scotia Community College reported that certain fully amortized capital assets did not appear on the College's capital asset schedule though these assets may still be of value to the College. Also, the College had internally restricted funds of \$4.7 million but plans for the use of the funds had not been developed.
- The auditors of the Trade Centre Limited reported a failure to accrue an amount for Public Service Awards.
- The auditors of the Art Gallery of Nova Scotia reported a need for additional controls over the operations of the "Gallery Shop" and that records have not been maintained for restricted donations.

FINANCIAL STATEMENT AUDITS BY OFFICE OF THE AUDITOR GENERAL

13.8 The Auditor General is responsible for the annual financial statement audit of certain crown corporations, agencies and funds. The following observations resulted from such audits conducted by the Office. For the year ended March 31, 2000, the Office contracted with private sector audit firms 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

13.9 As the result of an audit, an opinion is expressed on whether 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.

13.10 Except for the Public Trustee and the Province's consolidated financial statements, this year we did not encounter any situations that required qualifications in the Auditor's Reports on financial statements. The nature of the Public Trustee's 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

13.11 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.

13.12 *Nova Scotia Hospital* - As in prior years, we noted an instance of non-compliance with legislation. Section 30 of the *Hospitals Act* stipulates that, 30 days after having received written notice of discharge, a patient is solely responsible for his or her cost of maintenance for as long as the individual continues to stay in a hospital. In July 1995, Nova Scotia Hospital staff were directed by the Hospital's Board of Management not to issue invoices for these costs and consequently, 30 day notices were no longer issued to patients. We were informed that the vast majority of individuals who had received these notices in the past were financially incapable of paying these costs. The Department of Health gave approval for the Hospital's non-compliance with the Act. An instance of inaccuracy in the documentation of receipt of goods was also noted.

13.13 *Fisheries and Aquaculture Development Fund* - There were an increasing number of aquaculture loans in arrears.

13.14 *Nova Scotia Innovation Corporation* - Weaknesses in control over fixed assets and computer security were observed.

13.15 *Provincial Drug Distribution Program* - An inadequate system of accounting for inventory price changes may have led to errors in allocation of costs between inventory and costs of goods sold. The outdated drug credit receivable had not been assessed for collectibility.

13.16 *Public Trustee Trust Funds* - Monies received are recorded in a mail receipt book, but these entries are not reconciled to bank deposits.

13.17 *Nova Scotia Farm Loan Board* - The Board received \$635,439 from the demutualization of Clarica Insurance. Part of this money was retained in the Board's insurance reserve and part was included in general revenue. The actual amounts placed in each of these two categories differed from the amounts approved by the Board of Directors. In addition, no legal or actuarial advice was obtained to support the distribution.

13.18 *Nova Scotia Housing Development Corporation* - There were problems with the timeliness, completeness and accuracy of the audit package prepared by the Financial Services Unit and Department staff. The financial statements of the Corporation do not comply with generally accepted accounting principles, and we have recommended that changes be made to achieve compliance.

13.19 *Pension Funds* - The required annual reporting to members of the Public Service Superannuation Plan and the Nova Scotia Teachers' Pension Plan was not done. It was indicated that one of the major contributors to this situation was the implementation of a new pension administration system.

Legislative and Policy Compliance Weaknesses

13.20 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.

13.21 *Nova Scotia Crop and Livestock Insurance Commission* - Insurance unit price changes were effected prior to Executive Council approval.

13.22 *Pension Funds* - Changes to the Members' Retiring Allowances 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.

Timeliness of Financial Reporting

13.23 In our view, as a minimum, financial statements should be available for release within six months of year-end. Our review this year noted, in addition to the Province's consolidated financial statements, several financial statements that were not completed within this time frame:

- Sydney Environmental Resources Limited;
- Sydney Steel Corporation;
- Public Service Superannuation Fund;
- Members' Retiring Allowances Account; and
- Teachers' Pension Fund.

13.24 It should be noted that recent amendments to the Provincial Finance Act now require that financial statements for Government Business Enterprises and Government Service Organizations be submitted to the Minister of Finance before June 30 following their fiscal year end.

13.25 Delays have prevented the timely completion of audits on these entities and have significantly contributed to the delay in preparation of the Province's consolidated financial statements.

13.26 The Province's consolidated financial statements for the fiscal year ended March 31, 2000 were released on December 14, 2000. While this date is prior to the statutory deadline of December 31, 2000, we believe that it would be more appropriate for the financial statements to be released within six months of the fiscal year end.

