

14.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

14.1 The financial statements of crown corporations, agencies and funds of the government of Nova Scotia, and trusts administered by 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, agencies, funds and trusts that prepare annual financial statements is included in Appendix II of this Report, on page 265.

14.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities whose financial statements are reported on by private sector auditors. This Chapter 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.

14.3 The financial statements of the Public Archives of Nova Scotia were subjected to a review, rather than an audit, as the operating budget of the Archives is now part of the annual budget of the Department of Tourism and Culture.

14.4 The financial statements of the Central Regional Health Board were also subjected to a review, rather than an audit, as the Health Board was audited as part of the combined financial statements of the Capital District Health Authority.

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

14.5 We reviewed the audited financial statements and reports prepared by private sector auditors. Our review focused on whether:

- there were any qualifications of auditors' opinions on the financial statements;
- there was any indication of inadequate controls over accounting records; and
- there was timely preparation and audit of annual financial statements.

14.6 The following observations resulted from our review.

Reservations of Opinion

14.7 The following entities' auditors issued qualified audit opinions on the financial statements.

14.8 *Art Gallery of Nova Scotia* - 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.

14.9 *Sydney Steel Corporation* - The Province of Nova Scotia has committed to assume direct legal responsibility for unfunded pension costs and obligations as well as environmental matters

relating to the Sydney Steel Corporation site. The Corporation has not disclosed the obligations related to these matters on the statement of loss, nor has it disclosed the offsetting contribution by the Province of Nova Scotia on the statement of shareholders equity (deficiency). Therefore, the financial statements are not in accordance with Canadian generally accepted accounting principles.

14.10 Nova Scotia Liquor Commission - The Commission did not record certain types of employee future benefits but is required to do so under Canadian generally accepted accounting principles. As a result, the auditors were unable to determine the significance of adjustments required to long-term liabilities, stores' operating expenses, warehousing and distribution expenses, administrative expenses and earnings from operations.

Financial Controls and Records

14.11 In certain instances, private sector auditors reported weaknesses in internal control in management letters to crown corporations or agencies. The following are selected observations from the management letters issued and available for our review.

- The auditors of the Halifax-Dartmouth Bridge Commission noted there is a need to compile a detailed inventory of land holdings and related costs, particularly those on either side of the MacKay Bridge.
- The auditors of the Nova Scotia Liquor Commission noted that the aging of accounts receivable was at issue and there is a need to increase collection of overdue accounts. In addition, some vouchers are being sold at cost, but redeemed at retail, resulting in a negative voucher balance. Controls should be put in place to reconcile vouchers sold to vouchers redeemed. Also, they recommended that all system documentation and backup disks be kept at an off-site location. Concern was also expressed over the level of computer controls.
- The auditors of the IWK-Grace Health Centre noted that payroll audit reports are not being reviewed by management on a regular basis and recommend a review be done monthly. Also, a reconciliation of investment allocations should be prepared separately for each fund within each foundation. Quarterly external grant updates should be provided to accounting staff for reconciliation to external grant expenses and payables. A reconciliation of donation revenue should be put in place to ensure revenue within the general ledger is allocated to the correct fund.
- The auditors of the Annapolis Valley Regional School Board noted the need for increased control over fundraising at the school level.
- The auditors of the Halifax Regional School Board made reference to weaknesses in internal controls and the policies and procedures related to the information technology system, as well as weaknesses in the internal controls of the payroll department.
 - Facilities Rentals - Contracts should be standardized across the School Board, show the rate the client will be charged and be reviewed by an appropriate individual. A record should also be kept of all cancellations and alterations made to invoices.
 - EXCEL Program - There is a need for the independent review of registration and cancellation of enrollment forms along with the aged receivables listing. To better allow area supervisors to answer customer questions, they should be given read only access to the EXCEL Program. Cheques made payable to the Program should be cashed as soon as possible after being received.

- International Students Program - There is a need for an independent agreement of the accounting clerks revenue spreadsheet numbers to the amounts recorded in the general ledger. There is also an overall accounts receivable segregation of duties issue.
- The auditors of the Southwest Regional School Board reported concerns over the level of computer controls at the Board.
- The auditors of the Trade Centre Limited noted that revenue from Events Halifax should only be recorded when there is a signed contract in place or cash has been received. Also, the Centre should record the accrual of vacation benefits as required under Canadian generally accepted accounting principles.
- The auditors of the Waterfront Development Corporation noted that accounts receivable need to be aged and reviewed on a timely basis. Concern was also expressed over data backup procedures.
- The auditors of District Health Authorities 1, 2 and 3 noted that there could be possible increases to HST recoveries and potential HST offsets. Concern was also expressed over the level of computer controls.
- The auditors of District Health Authorities 4, 5 and 6 noted a reconciliation of accounts payable invoice batches to cheque runs should be implemented. Concern was also expressed over the level of computer controls.
- The auditors of the Capital District Health Authority noted issues at certain of the Authority's locations.
 - Central Regional Health Board - There is a need for increased controls, in particular, appropriate signatures on expense claims, the need to segregate duties in the payroll department and the requirement of a purchase order for every purchase made.
 - Queen Elizabeth II Health Sciences Centre - The billing and accounts receivable computer system needs updating.
 - Nova Scotia Hospital - Segregation of duties in the payroll department, specifically the clearing of exception reports, is needed.
- The auditors of the Nova Scotia Art Gallery noted that more attention must be paid to the calculation and accounting for HST. Also, required adjustments were not made after the inventory was counted and there is insufficient backup for journal entries. A segregation of duties needs to be established for the shipping, billing and collection of revenue for the Product Development Fund. Transactions for the transfer of goods between the Product Development Fund and the Gallery Shop need to be recorded in the general ledger. Intercompany balances between the Product Development Fund and the Gallery Shop are not separated from regular receivables, payables or inventory. Art Gallery goods on consignment with third parties are recorded as accounts receivable when they are actually inventory. Goods on consignment with the Art Gallery are recorded as inventory. These goods are not the assets of the Art Gallery and therefore should not be recorded as such.
- The auditors of the Nova Scotia Alcohol and Gaming Authority have expressed concern as to the level of computer controls at the Authority. They have highlighted

several key concerns such as the need to grant individuals access only to the data they need. A process needs to be put in place which allows for the monitoring and validation of the security measures in place in terms of the link to the Internet. The technology resource policies and procedures and the information technology relationship between the Authority and the Province of Nova Scotia need to be formally documented. Formal policies and procedures also need to be put in place with regards to updating the Authority's web-site.

- The auditors of the Nova Scotia Community College noted that there is only one staff member trained to carry out payroll transfers. It is recommended that another staff member be trained as backup for this function.

FINANCIAL STATEMENT AUDITS BY THE OFFICE OF THE AUDITOR GENERAL

14.12 The Auditor General is responsible for the annual audit of the summary consolidated financial statements of the Province of Nova Scotia. See Chapter 2 for comments and observations.

14.13 The Auditor General is also responsible for the annual financial statement audits of certain crown corporations, agencies, funds or trusts. The following observations resulted from such audits conducted by or for the Office. For the year ended March 31, 2001, the Office contracted ten financial statement audits with private sector audit firms. The Office signed contracts with these firms and provided oversight supervision for the audits. The auditor's report for each set of financial statements was signed by the Auditor General of Nova Scotia.

Reservations of Opinion

14.14 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 an audit opinion or situations in which it was not possible to render an opinion, we believe it is appropriate to report on the matter.

14.15 The auditor's reports on the March 31, 2001 financial statements of the Nova Scotia Business Development Corporation and the Industrial Expansion Fund were qualified because approval of write-offs was outstanding when the statements were released. Section 23 of the Provincial Finance Act requires all such write-offs be approved by the Executive Council. Subsequent to the release of the financial statements, the write-offs were approved by an Order in Council.

14.16 The auditor's report on the March 31, 2001 financial statements of the Nova Scotia Talent Trust was qualified because the Trust derives revenues from fund raising activities and donations. The completeness of this revenue is not susceptible to conclusive audit verification. This is not an unusual situation for this type of organization.

14.17 The auditor's report on the March 31, 2001 financial statements of the Public Trustee was qualified because 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.

14.18 The auditor's report on the March 31, 2001 financial statements of the Atlantic Provinces Special Education Authority was qualified because the Authority derives revenues from donations and bequests. The completeness of this revenue is not susceptible to conclusive audit verification. This is common for such an organization. The Report was also qualified because the accounting for Public Service Awards payable to employees upon retirement is on a cash basis. The amount of the required adjustment cannot be determined as an actuarial valuation has not been performed.

System Weaknesses

14.19 During the Office's financial statement audits, situations were noted where accounting and control systems or procedures were deficient. Although they were not of a magnitude to require reservations of the audit opinion, a number of these situations are summarized in this Chapter.

14.20 *Nova Scotia Business Development Corporation and Industrial Expansion Fund* - All loans should be reviewed annually to ensure there is adequate information to assess the provision for doubtful loans. Also, an annual verification of contract terms which relate to loan forgiveness is required to ensure loan forgiveness is only earned in accordance with the terms of the loan contract. Appraisals of industrial parks and malls took place in 2001, as recommended in 2000. It should be noted that the loan files were substantially more complete in the current year than in previous years. Concern was also expressed over the level of computer controls.

14.21 *Nova Scotia Film Development Corporation* - The recording of loans issued as current expenditures is not in compliance with Canadian generally accepted accounting principles.

14.22 *Nova Scotia Housing Development Corporation* - The Department of Community Services and the Corporation year-end accruals related to Canada Mortgage and Housing Corporation (CMHC) should be consistent with the Corporation's claim submitted to CMHC. Also, further steps should be taken towards consolidated financial statements and compliance with Canadian generally accepted accounting principles.

14.23 *Nova Scotia Crop and Livestock Insurance Commission* - Manually prepared plans should be approved and signed by an appropriate official to ensure accuracy. Also, investment income should be calculated and accrued on a monthly basis.

14.24 *Nova Scotia Legal Aid Commission* - The Commission needs to develop an asset capitalization policy as some assets are currently being expensed. There is also a need to reconcile the accounts payable subledger to the general ledger on a timely basis. Rebates should be claimed for HST on travel expenses. The review of bank reconciliations needs to be documented. The Commission should ensure all invoices issued are dated. Payroll Transaction Proof Reports need to be reviewed by management. Concern was also expressed over the level of computer controls.

14.25 *Upper Clements Family Theme Park Limited* - The operator was not complying with the lease agreement as it had allowed insurance coverage to expire at March 31, 2001. A new policy was purchased May 31, 2001.

14.26 *Nova Scotia Talent Trust* - Internal controls, especially the signing of cheques, need strengthening.

14.27 *Long Term Disability Plan Trust Fund* - Recent performance and other information on investment income, number of claimants, the premiums/claims ratio and EI reductions emphasize the need for the recently developed funding strategy to deal with the plan's large unfunded liability. The Board of Trustees is strongly encouraged to devote maximum effort towards the implementation of these strategies.

14.28 *Nova Scotia Public Trustee* - The Trustee should move from the cash basis to the accrual basis of accounting in order to comply with Canadian generally accepted accounting principles. There is also a need for consistent timing of the valuation of investments and real estate for reporting purposes. Also, a reconciliation of the mailbook to the deposit slips is needed. The investments of the trustee should be adjusted to market values at year end.

14.29 *Atlantic Provinces Special Education Authority* - Formal policies to address collection and regular summary reporting of overdue accounts receivable and the approval of write-offs should be put in place. As well, there is a need for improved management reporting in the audiology business area. Management should also issue instructions to staff to facilitate proper cut-off and matching of costs and revenues.

Legislative and Policy Compliance Considerations

14.30 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 the audit opinion, some were significant enough to warrant discussion in this Chapter.

14.31 *Members' Retiring Allowances Act* - To better comply with the Act, the financial statements should be tabled before their usual tabling in Volume II of the Public Accounts. The statements are normally available earlier than the date of tabling of the Public Accounts. Amendments need to be made to the Act to allow for the issuance of a formal waiver from the Canada Customs and Revenue Agency with regards to member contribution limits. These necessary amendments need to be initiated by the Report of the Commission of Inquiry. A separate account should be formed for the Members' Supplementary Retiring Allowances Plan to allow for the segregation of contributions, interest, refunds and allowances from the Members' Retiring Allowances Plan.

Timeliness of Financial Reporting

14.32 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 summary consolidated financial statements, the audited financial statements of the Nova Scotia Farm Loan Board were not released within six months of year end.

14.33 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.

14.34 The Province's summary consolidated financial statements for the fiscal year ended March 31, 2001 were released on November 16, 2001, six weeks prior to the statutory deadline of December 31.
