

17.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

17.1 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 291.

17.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where 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.

17.3 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.

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

17.4 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.

17.5 The following observations resulted from our review.

Reservations of Opinion

17.6 The following entity's auditors issued qualified audit opinions on the financial statements.

17.7 *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 the usual situation for charitable organizations.

Financial Controls and Records

17.8 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 IWK Health Centre noted that a complete disaster recovery plan is not in place.
- 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 policies and procedures related to the information technology system for Board administration and schools. Although they noted improvements in the payroll area, they still had concerns about weaknesses in the related internal controls.

Concerns were raised surrounding computer access controls in the schools and the lack of a formal disaster recovery plan for the Board.

Auditors reviewed controls over program revenues for summer school and raised concerns about deficiencies in basic controls to ensure completeness of revenue.

The auditors also noted a need for a capital assets sub-ledger to control capital assets.

- The auditors of the Southwest Regional School Board reported concerns over the lack of a formal disaster recovery plan.
- The auditors of District Health Authorities 1, 2, 3, 4, 5 and 6 noted concerns over the level of computer controls.
- The auditors of the Nova Scotia Community College noted that there should be a disaster recovery plan in place.
- The auditors of the Waterfront Development Corporation noted concerns surrounding access and password controls.

FINANCIAL STATEMENT AUDITS BY THE OFFICE OF THE AUDITOR GENERAL

17.9 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.

17.10 The Auditor General is also responsible for the annual financial statement audits of certain crown corporations, agencies, funds and trusts. The following observations resulted from such audits conducted by or for the Office. For the year ended March 31, 2002, 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

17.11 The result of an audit is an opinion 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.

17.12 The auditors' reports on the March 31, 2002 financial statements of Nova Scotia Business Incorporated's Nova Scotia Business Fund and 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.

17.13 The auditor's report on the March 31, 2002 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 the usual situation for this type of organization.

17.14 The auditor's report on the March 31, 2002 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.

17.15 The auditor's report on the March 31, 2002 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.

17.16 The auditor's report on the March 31, 2002 consolidated financial statements of the Nova Scotia Housing Development Corporation was qualified because the revenues and expenses pertaining to the Rural and Native Housing Program contracted to the Ki'Knu Housing Commission Society are not audited, but are included in the consolidated financial statements of the Housing Development Corporation.

System Weaknesses

17.17 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.

17.18 *Nova Scotia Business Incorporated (NSBI) and Industrial Expansion Fund (IEF)* - 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. Concern was also expressed over the level of computer controls and the lack of a formal disaster recovery plan. A process should be put in place to allow NSBI to collect the necessary information to prepare financial statements which comply with generally accepted accounting principles.

17.19 As part of the wrap-up of the Nova Scotia Business Development Corporation (NSBDC) (which had been assigned responsibility in the early 1990's for the assistance accounts provided through the IEF), various roles and responsibilities for the IEF and its accounts became problematic. The new Nova Scotia Business Incorporated (NSBI) was designated to 'administer' the IEF accounts. However, 'administer' was not defined and NSBI's interpretation of the scope of its roles and responsibilities for the IEF and its accounts was significantly less than what had previously been done by NSBDC.

17.20 This situation resulted in significant delay in the finalization of the audit of the IEF's March 31, 2002 financial statements. More importantly, without full and appropriate resolution, the roles and responsibilities for the IEF will be fragmented between NSBI and the Office of Economic Development.

17.21 *Nova Scotia Legal Aid Commission* - The Commission needs to reconcile the accounts payable sub-ledger to the general ledger on a timely basis. Concern was also expressed over the level of computer controls.

17.22 *Nova Scotia Gaming Corporation* - For the year ended March 31, 2003, the Corporation should start including a statement of cash flow in its annual financial statements. The results of a separately contracted review of internal controls identified various opportunities for improvement.

17.23 *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. A reconciliation of the mailbook to the deposit slips is needed.

17.24 *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.

Legislative and Policy Compliance Considerations

17.25 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.

17.26 *Members' Retiring Allowances Act* - 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 regard to member contribution limits. 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

17.27 In our view, as a minimum, financial statements should be available for release within six months of year end. The Province's summary consolidated financial statements for 2001-02 were not released within six months of year end.

17.28 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 the fiscal year end. Not all entities were successful in meeting the reporting deadline this year.

17.29 For example, due to delays in finalizing actuarial valuations and the market value of a private investment holding, the annual financial statement audits of the Public Service Superannuation Fund, the Nova Scotia Teachers' Pension Fund, and the Sydney Steel Corporation Superannuation Fund could not be reported upon until late November 2002. Management of the Funds needs to take appropriate and timely steps to ensure final audited statements are available by the June 30th reporting deadline prescribed in the Provincial Finance Act.

17.30 The Province's summary consolidated financial statements for the fiscal year ended March 31, 2002 were released in December 2002 prior to the statutory deadline of December 31.

