

15 REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

- 15.1** 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.
- 15.2** 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.
- 15.3** 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

- 15.4** 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;
 - the audit opinion was based on Canadian generally accepted accounting principles, or on a disclosed basis of accounting;
 - there was any indication of inadequate controls over accounting records; and
 - there was timely preparation and audit of annual financial statements.
- 15.5** The following observations resulted from our review.

Reservations of Opinion

- 15.6** The auditor of the Art Gallery of Nova Scotia issued a qualified audit opinion on its 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 the usual situation for charitable organizations.

Disclosed Basis of Accounting

- 15.7** The following entities' financial statements were prepared on a disclosed basis of accounting rather than Canadian generally accepted accounting principles.
- The financial statements for all school boards were prepared using accounting principles for Nova Scotia School Boards as prescribed by the *District School Board Financial Handbook* published by the Department of Education. The matter is discussed further in Chapter 5 of this Report (see page 73).
 - The Nova Scotia Film Development Corporation and Nova Scotia Power Finance Corporation financial statements were prepared on a disclosed basis of accounting.
 - The Sherbrooke Restoration Commission's financial statements were prepared using accounting principles for museum boards in Nova Scotia as prescribed by the Department of Tourism and Culture.

Financial Controls and Records

- 15.8** In certain instances, private sector auditors reported weaknesses in internal control in management letters to crown corporations or agencies. The following are selected summary observations on matters included in the management letters issued and available for our review.
- The auditors of the IWK Health Centre noted various computer and access control issues.
 - The auditors of the Art Gallery of Nova Scotia commented that all projects of significant consequence should receive approval from the Board of Directors.
 - The auditors of the Halifax Regional School Board raised concerns surrounding the controls in place over the Excel and International Student programs. They also noted various computer-related issues surrounding documentation of policies, access controls and monitoring.
- The auditors suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.
- The auditors of the Strait Regional School Board suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.
 - The auditors of the Southwest Regional School Board suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.

The auditors also noted that IT control logs should be enabled.

- The auditors of the Metropolitan Housing Authority suggested that the Board request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls of SAP.
- The auditors of District Health Authorities 1, 2 and 3 noted that the disaster recovery plan needs to be updated and that offsite storage of backups is required.
- The auditors of District Health Authority 5 indicated that backup policies for computer records have not been consistently followed.
- The auditors of the Waterfront Development Corporation reiterated prior years' concerns surrounding access and password controls.
- The auditors of the Resource Recovery Fund Board Inc. indicated that follow-up and monitoring procedures should be implemented on approved program funding files.
- The auditors of Nova Scotia Municipal Finance Corporation suggested that management request government to have an independent auditor report on the design and ongoing effectiveness of the internal controls which govern the business critical information systems outsourced by the corporation.
- The auditors of Nova Scotia Business Incorporated (NSBI) noted that loans with special repayment arrangements were not being followed up on a timely basis to ensure that amounts coming due were being properly monitored and reviewed. There were also instances where loan valuation review forms were not signed off properly.

FINANCIAL STATEMENT AUDITS BY THE OFFICE OF THE AUDITOR GENERAL

- 15.9** The Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. See Chapter 2 for comments and observations.
- 15.10** 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, 2003, the Office contracted nine 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

- 15.11** 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.
- 15.12** The auditor's report on the March 31, 2003 financial statements of Industrial Expansion Fund referred to a disclosed basis of accounting rather than Canadian generally accepted accounting principles. The auditor's report was qualified because approval of write-offs was outstanding when the statements were finalized. Section 23 of the Provincial Finance Act requires all such write-offs be approved by Executive Council.
- 15.13** The auditor's report on the March 31, 2003 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.
- 15.14** The auditor's report on the March 31, 2003 financial statements of the Public Trustee Trust Funds 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 such trust funds.

System Weaknesses

- 15.15** 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 reservation of an audit opinion, a number of these situations are summarized in this Chapter.
- 15.16** [Industrial Expansion Fund \(IEF\)](#) - There are issues surrounding the impact of changes made to the terms of financial assistance packages on the loan balances in the accounting records. The Fund should also establish clear accounting guidelines for the recording of environmental liabilities.
- 15.17** [Nova Scotia Legal Aid Commission](#) - The Commission still needs to reconcile the accounts payable sub-ledger to the general ledger on a timely basis.
- 15.18** [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 mail book to the deposit slips is needed.
- 15.19** [Nova Scotia Housing Development Corporation](#) - There were several instances where annual reviews of housing sponsors were not completed. These reviews are

used to determine need for reserves related to projects. Weaknesses were noted in controls over cheque requisitions which led to a duplicate payment being made in one situation. Management ultimately discovered the error.

Timeliness of Financial Reporting

15.20 The Provincial Finance Act requires that financial statements for government business enterprises and government service organizations be submitted to the Minister of Finance by June 30 following the fiscal year end (usually March 31). As noted in Chapter 5 of this Report (page 69), there are inconsistencies between the Provincial Finance Act and the Education Act regarding the submission deadline which should be rectified.

15.21 The following entities and trusts were not fully successful in providing audited financial statements and requested information by June 30:

- Art Gallery of Nova Scotia
- Cape Breton District Health Authority
- Collège de l'Acadie
- Conseil scolaire acadien provincial
- Industrial Expansion Fund
- Insured Prescription Drug Plan Trust Fund
- Members' Retiring Allowances Act Accounts
- Nova Scotia Community College
- Nova Scotia Government Fund
- Nova Scotia Housing Development Corporation
- Nova Scotia Innovation Corporation
- Nova Scotia Liquor Commission
- Nova Scotia Power Finance Corporation
- Nova Scotia Public Service Long Term Disability Plan Trust Fund
- Nova Scotia Teachers' Pension Fund
- Public Archives
- Public Service Superannuation Fund
- Sydney Environmental Resources Limited
- Sydney Steel Corporation
- Sydney Steel Corporation Superannuation Fund

15.22 The Province's March 31, 2003 consolidated financial statements were released on November 13, 2003, prior to the statutory deadline of December 31.
