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REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

- 9.1** 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.
- 9.2** 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 financial statement audits by private sector auditors, as well as comments on audits performed by this Office.

FINANCIAL STATEMENT AUDITS

- 9.3** The Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. See Chapter 2 of this Report for comments and observations on our audit of the Province's March 31, 2005 statements.
- 9.4** In preparing this chapter, we reviewed the audited financial statements and reports prepared by our Office and 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.
- 9.5** The following observations resulted from our review.

Reservations of Opinion

- 9.6** 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 such matters and have done so below.

- The auditor's report on the March 31, 2005 financial statements of the Industrial Expansion Fund was qualified because certain expenses and revenues were not reflected in the financial statements. The report was further qualified because a statement of cash flow was not provided and classification and disclosure of receivables was not adequate. In addition, the write-offs of assistance reflected in the financial statements had not been approved by the Governor in Council as required.
- The auditor of the Nova Scotia E911 Cost Recovery Fund issued a qualified audit opinion on the financial statements. The Fund is managed by the Emergency Measures Organization which has the ability to incur expenses on behalf of the Fund. The completeness of the expenses that the Fund incurs is not susceptible to conclusive audit verification.
- The auditors of the Annapolis Valley Regional School Board and the Strait Regional School Board, respectively, issued qualified audit opinions on the financial statements. The boards are required to report school-based funds in their financial activities. The completeness of revenue earned from school-generated funds is not susceptible to satisfactory audit verification.
- The auditor's report for the Halifax Regional School Board was qualified because the completeness of revenue earned from school-generated funds is not susceptible to satisfactory audit verification. As well, the auditors were unable to verify the accuracy of opening balances or expenditures from school-funded activities.
- The auditors' reports for the South Shore Regional School Board, Tri-County Regional School Board, and the Conseil scolaire acadien provincial, respectively, were qualified because the boards did not include school-based fund activities in their financial statements. The reports for the South Shore Regional School Board and the Tri-County Regional School Board were further qualified because the most recent actuarial report on the pension plan was in 2001 when the two boards were amalgamated. In 2004, the board was split into two and the auditors were unable to determine the extent of any possible liability related to the pension plan at each of the two newly created boards.
- As in prior years, the auditor of the Art Gallery of Nova Scotia issued a qualified audit opinion on the March 31, 2005 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 that receive donations.
- As in prior years, the auditor's report for 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.

- As in prior years, the auditor's report on the March 31, 2005 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 and trust income. This is not an unusual situation for such trust funds.

Disclosed Basis of Accounting

- 9.7** As the result of changes to the Canadian Institute of Chartered Accountants Handbook, auditors can no longer give unqualified opinions on general purpose financial statements unless the statements comply with Canadian generally accepted accounting principles (GAAP). The audit reporting on financial statements prepared using a disclosed basis of accounting which is not generally accepted is deemed to be for specific users - not for general purpose - and should include wording similar to the following:

“these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of (the addressee) and; the regulator or legislator ... for the (purpose(s)), and are not intended to be and should not be used by anyone other than the specified users, or for any other purpose...”

- 9.8** The preparation of financial statements on other than a GAAP basis reduces the value of the statements to the House and the general public.
- 9.9** The following entities' financial statements were prepared on a disclosed basis of accounting rather than Canadian generally accepted accounting principles.
- The financial statements for the SouthWest Regional School Board for the four months ended July 31, 2004 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. Effective July 31, 2004 the Board was dissolved and the South Shore Regional School Board and the Tri-County Regional School Board were established. In March 2005, an amended *Financial Handbook* was issued which requires financial statement reporting using Canadian generally accepted accounting principles.
 - The Nova Scotia Power Finance Corporation and Sydney Environmental Resources Limited 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, Culture and Heritage.

Financial Controls and Records

- 9.10** During financial statement audits, situations were noted where accounting and control systems or procedures were deficient. These weaknesses in internal

controls were reported by the auditors in management letters to the crown corporations or agencies. Although they were not of a magnitude to require reservation of an audit opinion, the more significant observations are summarized below.

- The auditors of the Capital District Health Authority identified opportunities to improve the security over access to computer applications and strengthen internal controls in the pharmacy inventory system.
- The auditors of the Cumberland Health Authority noted significant billings were not done on a timely basis and suggested controls over materials management inventory be reviewed.
- The auditors of the Guysborough Antigonish Strait Health Authority recommended improvements to accounts receivable review procedures and commented on an access control issue in the accounting system.
- The auditors of the Annapolis Valley, South Shore and South West Nova District Health Authorities noted that the timeline for conversion of the payroll system to SAP may pose an interim risk for payroll support before the conversion can take place. The auditors also noted the timeliness and quality of monthly variance analysis could be improved.
- The auditors of the Halifax Regional School Board raised concerns over the controls around school-based funds. The auditors also noted weaknesses in the payroll reconciliation process.
- The auditors of the South Shore Regional School Board and the Tri-County Regional School Board identified a number of weaknesses related to computer system access, authorization and monitoring controls.
- The auditors of AgraPoint International Inc. noted that payroll and cash management processes could be improved.
- The auditors of the Halifax-Dartmouth Bridge Commission identified weaknesses in the payroll process and sales recording procedures.
- The auditors of the Highway 104 Western Alignment Corporation commented on control weaknesses in the tolling system. As noted in prior years, the design limitations of the tolling system do not support individual user profiles and passwords for staff. The auditors also noted a security deficiency on the server at the Toll Plaza.
- The auditors of the IWK Health Centre raised concerns surrounding various computer and access control issues including weaknesses in access and change controls to employee masterfiles on the payroll system.
- The auditors of the Nova Scotia Community College supported implementation of the College's internal auditor's recommendations to address

access control concerns and segregation of duties issues between the payroll and human resources functions.

- The audit of the Nova Scotia Fisheries and Aquaculture Loan Board revealed problems with the completeness and accuracy of information presented to the Board of Directors.
- The auditors of the Nova Scotia Health Research Foundation identified problems with the accuracy and completeness of the accounts and grants payable systems.
- The audit findings for the Nova Scotia Housing Development Corporation noted concerns regarding the completeness of documentation supporting certain approved grants.
- The auditors of the Nova Scotia Innovation Corporation noted segregation of duties issues with the position of Director of Finance and Information Technology. They also raised concern with the effectiveness of an audit committee consisting of only one member.
- The auditors of the Nova Scotia Legal Aid Commission recommended improving controls around accounts payable, including monthly balancing of the subledger to the general ledger and reconciling outstanding payables to supplier statements.
- The auditors of the Nova Scotia Liquor Corporation identified concerns with controls and access to the accounting system. They also noted that accounts payable balances for significant trade accounts are not regularly reconciled with vendor statements.
- As noted in prior years, the audit findings for the Nova Scotia Public Trustee outlined the need for the reconciliation of the mail book to deposit slips to ensure all money received is deposited.
- The audit findings for the Nova Scotia Talent Trust noted that controls over disbursements need to improve as instances were noted where cheques and money orders were prepared with only one signature rather than two signatures as required. Cash depositing practices also need to improve as delays up to four months between receiving and depositing funds were noted.
- The auditors of the Nova Scotia Utility and Review Board noted that the information technology policies and practices could be improved and a disaster recovery plan should be developed.
- The auditors of Resource Recovery Fund Board Inc. raised concerns that cheques were presigned and not issued in numerical sequence. The auditors also identified weaknesses in the invoice payment process.

Timeliness of Financial Reporting

- 9.11** The Provincial Finance Act requires that financial statements for government business enterprises and governmental units be submitted to the Minister of Finance by June 30 following the fiscal year end (usually March 31).
- 9.12** There continue to be problems with receiving submissions by the deadline. This year, there were 21 entities (8 in 2004) that were not fully successful in providing audited financial statements and requested information by June 30. Of these entities, six were also late submitting statements last year.
- 9.13** The Province's March 31, 2005 consolidated financial statements were released on September 28, 2005 meeting the reporting requirement set out in the Provincial Finance Act.
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