

# Chapter 2

## IWK Health Centre: Financial Management Controls and Governance



### Overall Conclusions

- The Board of Directors and management of the IWK Health Centre did not effectively govern and oversee the development and performance of financial controls
- Financial controls were not effective

### Financial Management Controls (Audit Period – April 1, 2017 to March 31, 2018)

Significant financial and other internal controls were not effectively designed and implemented

- Controls over the seven business processes we examined were not effective

Significant transactions were not appropriate, adequately supported, or properly authorized

- Almost half (86) of the 199 samples requiring approval were not appropriately approved
- Internal controls were not documented and many policies lacked clear guidance
  - No policies covering fraud, hospitality, and internal meeting expenses
- Procurement controls were not effective, allowing individuals to make unapproved purchases or override the process
  - 8 of 10 procurement contracts could not be found
  - No evidence of quotes
- Payment controls were not effective and could result in IWK Health Centre paying for items not received
  - 16 of 25 transactions were not signed or stamped to show goods or services were received before payment was made
  - 78 percent (59) of 76 Board and executive travel and other expenses paid did not comply with policies, including 32 not appropriately approved (12 of 14 Board expenses were approved by management and not the Board Chair as required) and 9 expenses with no receipts
- Senior management did not promote compliance with policies
  - Former Chief Financial Officer approved expense claims with no receipts more than a year after the expenses had supposedly been incurred
  - Contrary to policy, the former Chief Financial Officer submitted a personal expense claim 173 days after the expenses had been incurred



## Governance

(Audit Period – January 1, 2014 to December 31, 2017)

Although the IWK Health Centre Board has many good governance practices, based on the pervasive financial internal control weaknesses, the Board did not effectively govern the IWK Health Centre

- The Board and management did not have a comprehensive risk framework
  - Financial risks were identified in 2012, but only five lower risk areas were addressed; most higher risk areas had no plan to manage
- The Board did not set the tone at the top for internal controls and did not adequately challenge management
  - Board committees did not question management’s rationale for assessing the control environment as mature
  - Board committees did not obtain evidence to support legislative compliance or follow up on management’s promise to deliver information
- The Board did not update the finance committee terms of reference in 2014 for best practices
  - No assurance that Board and senior management expenses comply with expense policies
  - No mention of the Committee’s role to establish tone at the top related to internal controls
- The Board did not document the performance evaluation of the former Chief Executive Officer



## Recommendations at a Glance

### Recommendation 2.1

The IWK Health Centre should create and update policies to provide clear expectations to staff. These policies should address fraud, travel and hospitality, internal meeting expenses, staff social events, gifts of appreciation, signing authority, and procurement.

### Recommendation 2.2

The IWK Health Centre should complete a risk-based evaluation of its internal controls. Management should design, document, and implement appropriate internal controls and monitor to ensure the controls are operating effectively on a regular basis.

### Recommendation 2.3

The IWK Health Centre Board of Directors should oversee the development and implementation of internal controls and receive regular reporting on the effectiveness of internal controls.

### Recommendation 2.4

The IWK Health Centre should implement a comprehensive risk management framework. This framework should identify both operational and strategic risks and identify how the IWK Health Centre is responding to the risks. The Board and management should regularly monitor the effectiveness of the IWK Health Centre's response to the risks.

### Recommendation 2.5

The IWK Health Centre should re-evaluate whether it has appropriately assessed and ranked its financial risks, using the issues identified in this report as a guide.

### Recommendation 2.6

The IWK Health Centre Board of Directors should update its governance policy to set a clear expectation of the significant transactions requiring Board approval. The Board should verify that management presented all changes to the Board for approval as required.

### Recommendation 2.7

The IWK Health Centre should identify and put appropriate controls in place to verify the accuracy of reporting to the Board of Directors.



### Recommendations at a Glance (continued)

#### Recommendation 2.8

The IWK Health Centre Board of Directors should review the Finance, Audit and Risk Committee terms of reference. The Board should make necessary updates to the terms of reference to improve management accountability for financial management controls.

#### Recommendation 2.9

The IWK Health Centre Board of Directors should regularly review the performance of the Chief Executive Officer and maintain sufficient documentation to support the results of the evaluation.

#### Recommendation 2.10

The IWK Health Centre Board of Directors should hold the Chief Executive Officer accountable to complete annual performance evaluations of executives as required.

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## 2 IWK Health Centre: Financial Management Controls and Governance

- 2.1 The IWK Health Centre Board of Directors and management did not provide effective oversight and governance in the development and performance of financial management internal controls nor did they adequately hold management accountable for the financial internal controls. The lack of oversight created a culture that did not promote accountability for the functioning of the controls. Throughout this report we note financial internal control deficiencies that resulted from management not effectively monitoring the control environment.
- 2.2 We did not design or intend our audit to be a forensic audit. The former Chief Executive Officer's travel and other expenses referred by the IWK Health Centre to law enforcement were not part of the scope of our engagement. We looked at the broader IWK Health Centre financial management controls and governance by the Board to better understand how the systems and practices at the IWK Health Centre allowed this situation to occur.
- 2.3 To reflect the IWK Health Centre's financial reporting cycle, we examined financial management internal controls in place between April 1, 2017 to March 31, 2018. We conducted walkthroughs of the financial management internal controls at a point in time to determine if the controls were appropriately designed and implemented, and tested the controls to determine if they were operating effectively for the 2017-18 fiscal year. For the rest of our audit work, we examined information between January 1, 2014 to December 31, 2017. We did not evaluate or assess the actions taken by current management to respond to the former Chief Executive Officer's expenses, nor did we evaluate changes management told us they made after the end of our audit period to identify and respond to internal control deficiencies.

### Financial Management Controls



The Board and management did not effectively oversee internal controls

- 2.4 The Board and management did not effectively oversee internal controls. Internal controls are the processes designed, implemented, and maintained by the Board, management, and staff to ensure reliable and accurate financial reporting, efficient and effective operations, and compliance with laws and regulations. The Board, through the Chief Executive Officer, is responsible to create a culture of awareness of internal controls.
- 2.5 The lack of adequate oversight by the Board and management significantly increases the risk of fraud, theft, unauthorized transactions, inefficient spending, and wasted money which the IWK Health Centre could have used



for other organizational priorities. Once implemented, the recommendations made throughout this report will help create a culture of awareness of internal controls and support the Board in holding management accountable.

➡ Management did not document the internal control environment or provide clear guidance

- 2.6 Management had very little documentation to support the processes, procedures, and internal controls for the business processes we examined. We examined transactions in significant financial processes – procurement, payables, revenue, cash and treasury, financial reporting, human resources, and payroll.
- 2.7 Many policies were outdated and in many areas management did not develop appropriate policy guidance. For example, management had not updated the corporate signing authority policy since 2012 and there were no policies to guide staff on hospitality expenses, internal meeting expenses, staff social events, or gifts of appreciation. Management did not develop clear procurement policies; they allowed staff to follow a wide variety of approaches to both complete and document purchase transactions.
- 2.8 The Board and management did not create an expectation to report and investigate fraud and did not have a fraud policy in place. Although management did establish a whistleblower process in May 2018 and completed a fraud risk assessment in June 2018, these measures were not in place during our audit period. Whistleblower processes are a best practice to create an expectation that staff report known or suspected issues. Having a clear fraud policy would further strengthen Board and management expectations and provide staff with guidance on what to do if they suspect fraud.
- 2.9 Without policies that provide clear guidance and create clear expectations, there is an increased risk the IWK Health Centre will use public funds inefficiently or inappropriately, or staff will not appropriately safeguard assets.

### **Recommendation 2.1**

The IWK Health Centre should create and update policies to provide clear expectations to staff. These policies should address fraud, travel and hospitality, internal meeting expenses, staff social events, gifts of appreciation, signing authority, and procurement.

*IWK Health Centre Response: The IWK agrees with the recommendation and this aligns with the significant work currently underway to update administrative policies. The IWK Board of Directors approved a Procurement Policy and an Internal Audit Policy in September 2018 and implementation is underway. A Policy on Wrong Doing which includes a fraud hotline was approved in February 2018*



*and has since been implemented. Policies relating to fraud, travel, hospitality, internal meeting expense, recognition events and activities, signing authority, investments and corporate credit cards were reviewed by the IWK Finance, Audit and Risk Management Committee in November 2018 and will be brought forward for approval by the Board at its December meeting.*

➡ Management did not put appropriate procurement controls in place

- 2.10 Management did not design appropriate controls over procurement, thereby increasing the risk of inappropriate or unauthorized purchases. Staff had access to make purchases without approval, change existing purchase orders without approval, and the ability to override the approval process entirely. These weaknesses give staff access to make unapproved, inappropriate, or unnecessary purchases, either intentionally or in error, and could lead to poor decisions or missed opportunities and cost the organization money which could be better spent on other organizational priorities.
- 2.11 Management did not implement a process to store basic procurement documents. Staff were not able to provide us with 8 of 10 procurement contracts we selected for testing. Failure to store contracts makes it impossible for the IWK Health Centre to know when those contracts expire and it significantly increases risks should a vendor dispute the contract terms or requirements. Staff also were not able to provide documentation showing they obtained the three quotes required to demonstrate purchases were cost effective. If purchases are not cost effective, the IWK Health Centre could be spending more for purchases than necessary.
- 2.12 In early 2018, management at the IWK Health Centre shared the findings of an internal review of its procurement process from the beginning action of requesting a purchase through to the final payment. In total, they identified 242 gaps throughout the process and said they were working to address the issues they identified. Some of the issues they noted are listed below.
- Nineteen near misses in the supply chain for 2017-18. Management said that a near miss has the potential to negatively impact patient care.
  - Approximately 40 percent of contracts had not used a potentially more cost-effective purchasing option available to the IWK Health Centre. Management estimated they saved approximately \$300,000 between June 2016 and early 2018 using this option, which suggested they could realize additional savings to support hospital priorities.
  - Half of the items physically counted during a mid-year inventory count were different from the values in the inventory system. Management said these differences could be the result of theft, error, or due to how staff received inventory. Staff received inventory based on the shipping documents, rather than observing and recording the



inventory actually received. This practice resulted in the electronic system showing inventory was available when it had not actually been received. Significant differences between what is physically on hand and what is in the inventory system could mean the hospital does not have the supplies and inventory they need to properly provide care to its patients.

 Payments, including travel expenses, were not in compliance with policies

- 2.13 Management did not make sure controls related to vendor payments were effective. Through our testing, we found staff did not sign or stamp 16 of 25 sample items to show they received the goods or services before other staff made the payment. This creates a risk that the IWK Health Centre might pay for items that are not received.
- 2.14 Management did not make sure internal controls over travel claims were effective. We found 4 of the 25 items sampled had errors in mileage rates or were missing information on the distance driven. An additional 5 samples were not appropriately approved. We found staff paid these claims without correcting the errors or obtaining the required approvals.
- 2.15 We found similar weaknesses in our detailed testing of Board and executive travel and other expenses. In total, 59 of the 76 (78%) expenses we tested did not comply with IWK Health Centre policies. The 59 samples included 32 that did not have appropriate approval, 9 that did not have receipts to support the expense, and 20 that did not have enough detail for us to determine why the expense was incurred or if it was for IWK Health Centre business purposes. Staff paid these claims without correcting these errors or obtaining the necessary approvals.
- 2.16 Overall, in the various business processes, we found issues with the approval of transactions. Almost half (86) of the 199 samples requiring approval had not been appropriately approved. The lack of appropriate review and approval increases the risk of inappropriate or incorrect transactions being processed.
- 2.17 Senior officials at the IWK Health Centre did not demonstrate or promote a culture of compliance with policies or the importance of internal controls. The former Chief Financial Officer submitted an \$11,500 travel claim that included expenses outside the sixty-day timeframe required by IWK Health Centre policy; one of the expenses had been incurred 173 days before the claim was submitted. Submitting expenses late for reimbursement makes it harder to hold staff accountable for purchases and increases the likelihood there will not be adequate support for, or appropriate review of, the expenses.
- 2.18 In January 2016, the former Chief Financial Officer submitted and inappropriately authorized two expense claims from 2014 for another member





of the executive team. Staff processed the two payments totaling \$2,000, with neither claim having receipts to confirm or support the expenses.

- 2.19 The current and former Board Chairs did not properly approve Board-related expenses. Despite the fact that IWK Health Centre policy requires the Board Chair to approve Board-related expenses, a member of the Executive Team approved 12 of the 14 Board expenses we tested. The Executive Leadership Team, through the Chief Executive Officer, is accountable to the Board. It is inappropriate for an individual to review and approve the expenses of the person they report to.
- 2.20 A Board and management set the tone for an organization and lead by example to create an environment that supports well-functioning internal controls. It is important that the IWK Health Centre Board and management be aware of internal controls and monitor the effectiveness of the controls used to safeguard the organization's assets.



Controls over the seven business processes we audited were not effective

- 2.21 Controls over the seven business processes we audited were not effective between April 1, 2017 and March 31, 2018. We found issues with procurement, payables, revenue, cash and treasury, financial reporting, human resources, and payroll. In addition to the procurement and payment weaknesses described in the previous paragraphs, there were also control weaknesses in other business processes.
- 2.22 In the financial reporting process, we found management did not review manual journal entries and the attached support prior to posting, thereby increasing the risk of unapproved or inappropriate adjustments of financial records. In revenue, staff did not compare the billings they submitted for reimbursement to the revenue received, potentially resulting in lost revenue to the Health Centre. In payroll, staff could alter staff information without adequate review by management, and could result in unapproved or inaccurate changes to staff pay rates, annual pay increases, or staff bank account numbers.
- 2.23 These examples highlight the weaknesses resulting from management not properly designing and implementing controls and from the Board not holding management accountable for monitoring the effectiveness of controls. An ineffective internal control environment increases an organization's exposure to risk, increases the risk of fraud or error, and decreases management and staff accountability.



### **Recommendation 2.2**

The IWK Health Centre should complete a risk-based evaluation of its internal controls. Management should design, document, and implement appropriate internal controls and monitor to ensure the controls are operating effectively on a regular basis.

*IWK Health Centre Response: The IWK agrees with this recommendation. A comprehensive risk based review of IWK's internal controls has been partially completed, incorporating observations from both external and internal sources. The internal project team is tasked with understanding the current control strengths and deficiencies, creating priorities and defining resource requirements. While improvements to internal controls continue to be made this fiscal year, the objective is to commence fiscal 2019-20 with enhanced internal controls in place for all areas under review.*

### **Recommendation 2.3**

The IWK Health Centre Board of Directors should oversee the development and implementation of internal controls and receive regular reporting on the effectiveness of internal controls.

*IWK Health Centre Response: The IWK agrees with this recommendation. The Finance, Audit and Risk Management Committee has overseen the internal controls project since the project's inception in November of 2017. Regular progress reports have been reviewed by the committee and the report recommendations with a tracking tool for progress and completion has been endorsed. While improvements to internal controls continue to be made this fiscal year, the objective is to commence fiscal 2019-20 with enhanced internal controls in place and mechanisms to evaluate their effectiveness.*

2.24 Management told us it has been working hard to address the internal control deficiencies we identified, as well as the issues management and staff identified from their own internal control assessment as discussed earlier.

## **Enterprise Risk Management**



The Board and management did not have a comprehensive risk management framework

2.25 The Board and management did not have a comprehensive risk management framework that identified risks to the IWK Health Centre and defined how the Health Centre will respond to those risks. As a result, the Board and management cannot demonstrate that the IWK Health Centre is effectively responding to the risks.



- 2.26 In 2012, management completed a financial risk management plan and identified 13 financial risks, but only developed a response plan for 5. Two of the risks with response plans had both the lowest potential impact and the lowest likelihood of occurring, and were the two least riskiest of the original 13 risks. Procurement was one of the higher risk areas not selected, and as discussed earlier, we found significant issues with controls relating to procurement. Management presented updates to the Finance, Audit and Risk Committee on the five risks into April 2014; however, we saw no evidence that management addressed the other high-risk areas at any time since they were identified in 2012.
- 2.27 Management engaged consultants to complete reviews of specific financial business processes and reported to the Board that these projects were part of a risk-based plan. However, there was no evidence of a risk-based plan or evidence the Board asked management how it selected the projects or how the topics aligned with the IWK Health Centre's strategic objectives.
- 2.28 In 2016, management started to update its enterprise risk management approach to include strategic risks and incorporate board oversight. Management presented the framework, including risk registers, to the Board in the fall of 2017 and again in 2018. None of these frameworks included the required mitigation plans for the risks identified or identified the actions management will take to address the risks.
- 2.29 The Board did not hold management accountable to develop a comprehensive risk management framework. Once developed and implemented, the Board should use the risk framework as a tool to hold management accountable. The Board should review and identify the risks which could impact on the IWK Health Centre achieving its strategic objectives. The Board should also have a clear expectation of how management is mitigating and responding to the risks and use this expectation to hold management accountable for the effective operation of internal controls to manage risk.

#### **Recommendation 2.4**

The IWK Health Centre should implement a comprehensive risk management framework. This framework should identify both operational and strategic risks and identify how the IWK Health Centre is responding to the risks. The Board and management should regularly monitor the effectiveness of the IWK Health Centre's response to the risks.

*IWK Health Centre Response: The IWK agrees with this recommendation and has adopted a comprehensive enterprise risk management framework which identifies both operational and strategic risks. The risk response, owner and reporting mechanism have been designated for the strategic risks. Highest ranked operational risks have been designated to owners and action plans are under development.*



*Processes to assign, manage and report on the remainder of the identified risks at a team and program level are underway.*

*Processes to update the organization's Risk Registry, response and governance to reflect changes to the entity's operation and environment continue to be evolved and strengthened, including regular (quarterly) report to the Finance, Audit and Risk Management Committee of the Board.*

2.30 The 2018 risk framework did not identify financial-related risks among the top risks selected for mitigation. The Board and management are accountable for all aspects of the IWK Health Centre, including patient care and efficient financial operations to support patient care. Given the pervasive internal control weaknesses discussed earlier, the Board and management should reassess whether they have appropriately evaluated the risks related to their financial processes.

2.31 In the Governance section of this report we discuss how vulnerabilities with the procurement process led to external preventative maintenance on the emergency generators lapsing for a year without staff noticing. Financial processes, such as procurement, allow the IWK Health Centre to have the inventory, supplies, and services needed to allow staff to meet its obligation of providing care. It is important the IWK Health Centre consider the impact of financial processes on patients when evaluating risk.

### **Recommendation 2.5**

The IWK Health Centre should re-evaluate whether it has appropriately assessed and ranked its financial risks, using the issues identified in this report as a guide.

*IWK Health Centre Response: The IWK agrees with this recommendation. As part of the risk management project, the framework was presented to the Finance, Audit and Risk Management Committee in February 2018. In June 2018, the entire Risk Registry was discussed by the Committee. The finance and procurement Risk Registry was reviewed and evaluated in November 2018 at the Finance, Audit and Risk Management Committee and will be brought forward for approval at December 2018 Board meeting.*

### **Governance**



The Board did not adequately challenge and follow up when management failed to provide requested information

2.32 The IWK Health Centre did not have an internal audit function. Internal audits provide independent information to a Board to make Board members aware of new risks or verify the accuracy of management reporting. In the absence of internal audit, a board needs to be more critical of the information



received from management, so they can hold management accountable for the processes, practices, and controls of the organization.

- 2.33 As discussed in the following paragraphs, the IWK Health Centre Board did not adequately question or challenge the information management presented to it. The Board also did not follow up when management failed to provide the information requested by the Board.
- 2.34 The Board, through the Building and Infrastructure Committee, did not hold the former Chief Financial Officer accountable to respond to 47 recommendations in a March 2016 external consultant report on maintenance and asset management. The recommendations addressed several areas of hospital operations, including a vulnerability in the procurement process that resulted in staff not reissuing a contract for external preventative maintenance on its emergency generators. Although the report said staff continued its regular testing, it also said the lapse went unnoticed for a year before staff accidentally discovered it. As discussed previously, staff did not keep contracts on file and this likely contributed to staff being unaware the contract had expired.
- 2.35 There was nothing documented to show the Committee requested management's plans to address the consultant's recommendations. Although the former Chief Financial Officer gave the same summary update to the Committee from September 2016 to March 2017, the Committee did not request or receive a detailed response plan. The former Chief Financial Officer told the Committee he would provide a detailed update in May 2017, but this never happened, and again the Committee did not bring it up or address it further.
- 2.36 The Board and management should have been very concerned by the issues that allowed preventative maintenance on the emergency generators to lapse. The Board should have been very active to ensure management took appropriate actions to address the issue. Failure of the Board to take any proactive measures to ensure management addressed these issues is very concerning and highlights the fact that the Board was in the habit of accepting the information provided by management rather than directing management to take the actions the Board deemed necessary.
- 2.37 Members of the Board and the Building and Infrastructure Committee did not discuss how reductions to the inventory and supply area could impact patient care at the IWK Health Centre. Between December 2016 and May 2017, management presented the Board and the Committee with information on management's plan to rearrange space on the lower levels of the IWK Health Centre. The project allowed management to move offsite administrative services into the recovered space to save on external lease expenses.




- 2.38 Current management told us these changes reduced the space available for inventory storage and resulted in the IWK Health Centre holding less inventory onsite than it did previously. Management also told us the IWK Health Centre needed to make more frequent purchases because they had less space for onsite storage. Holding less inventory could also increase the risk to operations from potential supply disruptions. Combined with the concerns noted earlier around procurement, these changes increased the risk to the hospital.
- 2.39 The Board did not ask, and the former Chief Financial Officer did not fully explain the impact of the project, including the associated risks. A Board is responsible for setting expectations for management and holding management accountable, especially in areas where operational changes may impact an organization's strategic risks. Current management at the IWK Health Centre told us it has since disclosed this matter to the Finance, Audit and Risk Committee and the Board.
- 2.40 The Finance, Audit and Risk Committee did not adequately question the former Chief Financial Officer's June 2017 assessment that the internal control environment at the IWK Health Centre was mature. The assessment cited policies that management had just put forward for approval to the Board at the same meeting, therefore the controls and policies were not yet in place, but no one asked how that could result in a mature control environment. In addition, the assessment cited an internal audit function which the IWK did not have. Nothing was documented in the meeting minutes to show the Committee had questioned the rationale for the assessment or asked management what work it did to reach its conclusions on the control environment.
- 2.41 The policies put forward by management for approval had minimal involvement from staff. The updated signing authority policy listed a member of the management team as the policy sponsor, yet this individual told us they saw the policy for the first time the day before the former Chief Financial Officer presented it to the Committee for approval, and they had not been involved in its development. Current management has identified signing authorities granted within the policies as inappropriate and other areas of the policies that conflict with provincial procurement policies. Current management told us in October 2018 it has not implemented these policies, pending further review.
- 2.42 The Finance, Audit and Risk Committee did not hold the former Chief Financial Officer accountable to explain how management complied with legislative requirements. The former Chief Financial Officer was responsible to provide the Committee with a quarterly compliance statement outlining the legislation management must comply with. In January 2016, the Committee asked how management satisfied itself that the IWK Health Centre complies with the legislation. The former Chief Financial Officer said he would bring



a full description of the process to the Committee at a future meeting. The former Chief Financial Officer did not provide this information, and neither the Committee nor the full Board followed up on the original request.

- 2.43 The Finance, Audit and Risk Committee also did not question changes the former Chief Financial Officer made to the compliance statement. The former Chief Financial Officer reviewed the statement and presented an updated version to the Committee in June 2017. There was no documentation of any discussion about the change from a quarterly statement, as required by the Committee's terms of reference, to an annual statement, nor was there any discussion about the matter of management omitting one piece of legislation from the updated statement.
- 2.44 Without an adequate understanding of management's process, the Finance, Audit and Risk Committee would not know if it could rely on the compliance statements provided by management. It would also not know whether it needed to ask for more information to hold management accountable to comply with the legislation. This shows a continued pattern of the Board and its committees taking the word of management at face value and not completing the due diligence expected of them.

 The Board did not set clear expectations for management

- 2.45 In its governance policy, for expenses that change from the Board-approved budget, the Board did not set a threshold for significant expenses that require Board approval. Without a clear expectation from the Board of what a significant expense is, it would be difficult to hold management accountable if it did not bring these changes to the Board for approval. Additionally, the lack of internal audit meant the Board would have had to rely on the information from management without any independent verification of it.
- 2.46 Current management told us the former Chief Financial Officer changed the IWK Health Centre's policy related to preferred accommodation billing and it resulted in losing potentially significant revenue. Based on our review of the Board and committee minutes, previous management did not inform the Board of this change. Current management at the IWK Health Centre told us it has since disclosed this matter to the Finance, Audit and Risk Committee and the Board.

### **Recommendation 2.6**

The IWK Health Centre Board of Directors should update its governance policy to set a clear expectation of the significant transactions requiring Board approval. The Board should verify that management presented all changes to the Board for approval as required.





*IWK Health Centre Response: The IWK agrees with this recommendation. The regularly scheduled annual review by General Counsel of the Corporate Bylaws and Governance Policy begun in March 2018 resulted in a number of recommendations for updates to the existing policy. These included guidelines regarding significant transactions requiring Board approval. The updated Governance Policy was reviewed at the Governance and Nominating Committee meeting in November 2018 and is being recommended for approval at the December Board meeting. This annual review process, a best governance practice, has been in place at the IWK since 2016.*

*A mechanism to enable the Board to verify that on an annual basis management has presented all changes as required will be designed and implemented effective the date of Board approval.*



Management did not put controls in place to verify the accuracy of financial reporting to the Board

- 2.47 The Board regularly reviewed and approved key accountability reports. It received quarterly information from management on management's progress toward meeting Board-approved quality improvement plans. The reporting included the current year performance against established targets and management's planned initiatives and action plans. The reporting and performance measures linked to the IWK five-year strategic plan objectives. Management also regularly reported financial and other information to the Board.
- 2.48 Board members we interviewed said they felt free to question management and to request additional information. However, based on our review of Board and committee minutes, and based on the examples discussed earlier, we saw little evidence of regular questioning or requesting additional information from management.
- 2.49 The Board did not hold management accountable to put controls in place over the accuracy of financial reporting presented to the Board. Staff could make manual adjustments to information taken from the financial system and the information presented to the Board was not signed off by management to give the Board assurance that someone other than the preparer had reviewed the information. This lack of controls over reporting could result in the Board receiving inaccurate or incomplete information.

**Recommendation 2.7**

The IWK Health Centre should identify and put appropriate controls in place to verify the accuracy of reporting to the Board of Directors.





*IWK Health Centre Response: The IWK agrees with this recommendation. As a feature of the IWK Accountability Agreement with the Department of Health & Wellness, continuity of single source financial information to the Board and its committees has been in place since July 2018. With leadership from the Department of Health & Wellness, this exact financial information is provided to government on a monthly basis, effecting a 3-way shared quality verification of financial results and forecasts. This verification process will be supported by the provision of dated source documents from SAP.*

2.50 The Board needs to make sure they hold management accountable for operations at the IWK Health Centre. As discussed earlier, a fully developed and implemented enterprise risk management framework would help to define the Board's expectations of management with regard to risk and responding to risk. The framework would also allow the Board to take a strategic view to identify the areas it wants more assurance on and to hold management accountable for the effectiveness of controls and the organization's response to the risks.

➡ The finance committee terms of reference do not meet best practices

2.51 The Finance, Audit and Risk Committee last updated its terms of reference in 2013. The Committee did not update the terms of reference to include areas of best practice identified by an externally-hired consultant in 2014. Some of the areas are significant and would have helped improve management accountability. Some examples are:

- there was no mention of the Committee's role to establish appropriate tone at the top of the organization related to internal controls;
- there was no reference to responsibility for fraud policies or anti-fraud programs;
- there was no assurance obtained from internal or external auditors on Board or management's compliance with expense policies; and
- there was no mention of the Committee's role in hiring key individuals, like the Chief Financial Officer.

### **Recommendation 2.8**

The IWK Health Centre Board of Directors should review the Finance, Audit and Risk Committee terms of reference. The Board should make necessary updates to the terms of reference to improve management accountability for financial management controls.

*IWK Health Centre Response: The IWK agrees with this recommendation. The terms of reference for all Board Committees has been reviewed and updated. The enhancements for the Finance, Audit and Risk Management Committee include*



*the delineation of the responsibility for each of its three functions with specific reporting requirements. This proposed terms of reference was reviewed at the May 2018 meeting and forwarded to Governance and Nominating Committee at their September 2018 meeting. Accompanied by the annual committee work plan, they will be brought forward for approval at the December 2018 Board meeting.*

➡ The Board did not document the performance evaluation of the former Chief Executive Officer

2.52 Although Board members told us the former Board Chair reviewed the performance of the former Chief Executive Officer, the former Board Chair did not keep copies of the evaluation. As a result, we were unable to determine if the former Chief Executive Officer met performance expectations, whether the expectations were reasonable, whether there were any areas requiring follow up, or whether the Board completed the evaluation in a timely manner. Board members told us the former Board Chair presented the results during an in-camera session, therefore the discussion was not documented in the meeting minutes.

2.53 A Board is responsible for holding its Chief Executive Officer accountable for their performance and the operations of the organization. Completing and documenting performance evaluations is a basic and critical way for a Board to show it is fulfilling its responsibility to hold the Chief Executive Officer accountable.

### **Recommendation 2.9**

The IWK Health Centre Board of Directors should regularly review the performance of the Chief Executive Officer and maintain sufficient documentation to support the results of the evaluation.

*IWK Health Centre Response: The IWK agrees with this recommendation. Building on established Human Resources principles, an updated process for the annual performance evaluation of the new CEO was developed in September/October 2018 and was discussed at the November 2018 Executive Committee meeting. Recommendations include revisions of the Governance Policy to outline expectations, responsibilities, and documented results.*

➡ The former Chief Executive Officer did not hold staff accountable for performance evaluations

2.54 Of the eight executive team members we selected for testing, three did not have fiscal 2016-17 annual evaluations completed as required. One executive did not have a documented performance evaluation for the preceding three years and two had no documented performance evaluations during their employment with the IWK.



2.55 Only one of the five completed executive team evaluations had been signed by the executive team member and their supervisor to indicate the supervisor had discussed the evaluation with the team member. Completing regular performance evaluations creates a culture in which management holds staff accountable for their performance from the prior year and sets the expectations for the upcoming year.

**Recommendation 2.10**

The IWK Health Centre Board of Directors should hold the Chief Executive Officer accountable to complete annual performance evaluations of executives as required.

*IWK Health Centre Response: The IWK agrees with this recommendation and this process now follows the established Human Resources procedures of the Health Centre. The 2017-2018 reviews of executive team members were undertaken by the Interim CEO in April/May 2018 and reported at the Executive Committee in June 2018.*

➡ The Board had experienced Board members and followed many good practices

2.56 The IWK Health Centre Board is comprised of 19 Board members, most of whom are volunteers. Board members have varied experience and backgrounds which include private industry, legal, accounting, construction, medical, academic, and government. Many of the current and former Board members we interviewed said they had prior experience on other boards.

2.57 The Board followed many good board governance practices, such as having:

- annual board, as well as individual evaluations;
- an orientation process for new members on their roles and responsibilities;
- documented governance practices; and
- a skills matrix to evaluate existing and prospective Board members skills, allowing the Board to address identified skill gaps.

2.58 Although having a skills matrix is a good governance practice, the matrix used did not explicitly include knowledge and understanding of internal controls. Given the issues discussed in this report, the Board should consider adding other skills they feel would help them effectively govern the IWK Health Centre.



### Additional Comments from IWK Health Centre

*At the IWK, responsible stewardship is a key enabler to consistently deliver on our mandate of improving the health of women, children, and families.*

*In June 2017, the IWK Board of Directors appointed Grant Thornton to review its former CEO's expenses. Following the receipt of this report in August 2017, the Board requested the Auditor General conduct a performance audit. At initial meetings in September 2017 the Board identified its areas of concern.*

*The IWK is committed to addressing the recommendations in this report. Significant progress has been made on evolving the control environment at the IWK over the past sixteen months. The IWK is pleased that these audit recommendations complement the existing work plan and future focus areas.*

*The IWK Board is confident that new executive leadership will continue to drive momentum and results around this important work, including broadened reporting and disclosure to the Board on a regular basis.*

*The IWK fully embraces continuous improvement in all areas. These audit recommendations align to that philosophy and to the work delivered each day by talented and dedicated teams. The care, safety and well-being of patients and families always has, and continues to be, the IWK's central focus.*



## Appendix I

## Reasonable Assurance Engagement Description and Conclusions

In fall 2018, we completed an independent assurance report of the governance and financial management controls at the IWK Health Centre. The purpose of this performance audit was to determine whether the Izzak Walton Killiam Health Centre's Board of Directors and management are providing effective governance and oversight, including appropriate financial management.

It is our role to independently express a conclusion about whether the governance and financial management controls comply in all significant respects with the applicable criteria. The Board and management at the IWK Health Centre acknowledged their responsibility for organizational governance and financial management controls.

This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada; and Sections 18 and 21 of the Auditor General Act.

We applied the Canadian Standard on Quality Control 1 and, accordingly, maintained a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the Code of Professional Conduct of Chartered Professional Accountants of Nova Scotia, as well as those outlined in Nova Scotia's Code of Conduct for public servants.

The objectives and criteria used in the audit are below:

**Objective:**

To determine whether the IWK Board is effectively governing the IWK Health Centre.

**Criteria:**

1. Roles and responsibilities of the IWK Board and its relevant committees should be clearly defined and communicated.
2. The Board should ensure that performance expectations for the CEO and the Board are clearly defined, performance is evaluated, and actions are taken based on the results of the evaluation.
3. The Board and its committees should be comprised of individuals with appropriate skills and expertise.
4. There should be processes in place for the Board and its committees to regularly request financial, performance, and other relevant information from IWK management to fulfill the Board's oversight responsibilities.
5. The IWK Board and its committees should regularly review and approve key accountability reports.
6. The IWK Board and its committees should be aware of key risks facing the IWK and respond appropriately.



**Objective:**

1. To determine whether significant financial and other internal controls have been effectively designed and implemented.
2. To determine whether significant financial and other transactions are appropriate, adequately supported, properly authorized, and in accordance with legislation and policies.

**Criteria:**

1. There should be effective risk management processes in place to identify, assess, prioritize, mitigate, and report on financial and other risks.
2. Policies and guidelines for the IWK's significant internal controls should be clearly documented and communicated.
3. Appropriate controls should be in place for significant financial reporting and other transactions at the IWK.
4. Significant financial reporting and other transactions should be consistent with legislation and policies, and reasonable under the circumstances.
5. There should be a process to monitor performance and compliance with significant financial reporting and other internal controls to ensure they are effectively designed and implemented.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by the Board and senior management of the IWK Health Centre.

Our audit approach consisted of interviews with Board members, management, and staff of the IWK Health Centre, reviewing policy, examining processes for governance and financial management related controls, and detailed file review. We conducted walkthroughs of the financial management internal controls to determine whether the controls were appropriately designed and implemented at a point in time, and tested the controls to determine whether they were operating effectively between April 1, 2017 and March 31, 2018. We examined relevant processes, plans, reports, and other supporting documentation between January 1, 2014 and December 31, 2017. We examined documentation outside of that period as necessary.

We obtained sufficient and appropriate audit evidence on which to base our conclusions on November 28, 2018, in Halifax, Nova Scotia.

Based on the reasonable assurance procedures performed and evidence obtained, we have formed the following conclusions:

- The IWK Health Centre Board did not effectively govern the IWK Health Centre related to financial management internal controls.
- Significant financial and other internal controls were not effectively designed or implemented.
- Significant financial and other transactions were not appropriate, adequately supported, properly authorized, or in accordance with legislation and policies.