

# 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.