2.5 Monitoring Agencies of the Crown

Introduction

Most agencies of the Crown do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of the Office of the Auditor General is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditor's report, audited financial statements and recommendations to management. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies.

As at 31 March 2004 there were approximately 154 (2003 - 149) agencies of the Crown in the Province. Of these, 84 (2003 - 82) were required to prepare annual financial statements, while the remaining 70 (2003 - 67) were considered non-financial and did not prepare financial statements. Any expenditure related to the operation of these 70 non-financial entities are included with those of the Government department responsible for the entity and are audited annually as part of our audit of the Public Accounts of the Province.

Observations

Compliance with Section 14

Information contained in the audited financial statements and management letters of Crown agencies is maintained in our computerized system and provides the basis for our monitoring of all Crown agencies.

Of the 84 entities required to prepare annual financial statements, 31 (2003 - 29) were audited by our Office while 51 (2003 - 51) were audited by private sector auditors. Contrary to their governing legislation, the remaining 2 entities, the Memorial University Foundation and the Newfoundland and Labrador Occupational Therapy Board have never submitted audited financial statements.

As of 5 January 2005, the required audited financial statements had not been received from the private sector auditors for 1 of the 51 entities and the required management letters had not been received for 4 of the 51 entities. Figure 1 outlines the entities for which the required information was not provided by the private sector auditors.

Figure 1

Required Information Not Provided
As at 5 January 2005

Entity	Audited Financial Statements Provided	Management Letter Provided
Newfoundland and Labrador Liquor Corporation	Yes	No
St. John's Nursing Home Board	Yes	No
Newfoundland and Labrador Cancer Treatment and Research Foundation	Yes	No
Newfoundland and Labrador Farm Products Corporation	No	No

Furthermore, the majority of audited financial statements and management letters that were received from the private sector auditors were not received on a timely basis. On average, audits are completed and the auditors' reports signed within three months after the year end. However, in most cases the financial statements and related management letters are not received by our Office until another four months after the audit report date, and often only after follow-up by our Office.

Highlights from the Audits of Crown Agencies

As part of our monitoring of Crown agencies, we review audited financial statements and management letters resulting from audits completed by either private sector auditors or by our Office.

1. Highlights from Audited Financial Statements

The following issues were highlighted from our review of 81 audited financial statements received:

- 25 entities (2003 - 23) reported a total bank indebtedness of $219 million (2003 - $169 million).

- For 5 (2003 - 3) entities the auditors' report contained a qualification. Of these 5, 4 were not in compliance with generally accepted accounting principles regarding recording and amortizing capital assets. Of these 4, 2 were also qualified because they recognized the teachers' severance and accrued liability without an offsetting grant receivable from the Provincial government. In 1 of these 2 entities, the auditor also reported a qualification because the Department of Education refused to confirm the existence of receivables totaling $55,352 owed to a school board. The last qualification concerns an entity that was inappropriately recording program grants, loans and equity investments and costs incurred by Provincial government departments.

2. Highlights from Management Letters

Figure 2 outlines the status of management letters, as of 5 January 2005, for the 82 entities audited by either private sector auditors or this Office.

Figure 2

Highlights from Management Letters
Years Ended 1 May 2003 to 30 April 2004

Information	Private Sector Auditor	Office of the Auditor General	Total
Management letters which identified issues	24	22	46
Management letters which indicated no issues identified	7	9	16
No Management letters issued	16	0	16
Management letters not finalized	4	0	4
Total	**51**	**31**	**82**

The following points were highlighted from our review of the 46 management letters with identified issues:

- 9 (2003 - 11) letters identified instances of weaknesses in controls over capital assets, the most significant of which was a lack of a capital asset ledger;

- 10 (2003 - 11) letters identified instances of weaknesses in controls over purchasing of goods and services including purchase orders not being used and purchases not being authorized;
- 7 (2003 - 11) letters identified instances of weaknesses over the collection of accounts receivable;
- 5 (2003 - 6) letters identified instances of computer related issues such as the lack of a disaster recovery plan;
- 3 (2003 - 3) letters identified instances of entities borrowing without legislative authority;
- 1 (2003 - 1) letter identified instances of non-compliance with the *Public Tender Act*;
- 10 letters identified issues with payrolls such as payroll advances and the approval of time sheets;
- 8 letters identified issues regarding the Harmonized Sales Tax;
- 8 letters identified issues with the board of directors such as frequency of meetings, approval of minutes and minimal activity;
- 9 letters identified issues surrounding the handling of money and bank accounts such as cash shortages and cheques being issued with one signature;
- 4 letters identified issues with travel and entertainment claims such as over payment and unauthorized expenses; and
- 5 letters identified instances of non-compliance with other legislative authorities.