

# Chapter 13

## Crown Agencies Audited by Others

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# Crown Agencies Audited by Others

## Background

13.1 We do not audit the financial statements of the Crown Corporations, Boards, Commissions and other Agencies listed below.

13.2 Agencies included in the Public Accounts:

- Board of Commissioners of Public Utilities
- Forest Protection Limited
- New Brunswick Geographic Information Corporation
- New Brunswick Liquor Corporation
- New Brunswick Museum
- New Brunswick Power Corporation
- Strait Crossing Finance Inc.
- Workplace Health, Safety and Compensation Commission of New Brunswick

13.3 Other Agencies:

- Atlantic Lottery Corporation Inc.
- Provincial school boards and hospital corporations.

13.4 The Auditor General Act requires the auditors of these agencies to submit the agencies' audited financial statements to our Office annually. The auditors must also provide copies of any reports and recommendations arising out of their audits.

## Scope

13.5 We review the financial statements and other documents as they are received. We also visit the auditors periodically to review their working papers. We do this to determine whether we can continue to rely on their work in carrying out our audit of the financial statements of the Province. During the year we reviewed the 1996 working papers of the auditor of New Brunswick Power Corporation, and the 1995 working papers of the auditors of six of the eight regional hospital corporations. We also visited the Office of the Comptroller to examine a sample of their audit files of school districts for the year ended 30 June 1995. We reviewed the 1996 working papers of the auditor of Atlantic Lottery Corporation Inc. in connection with our work at that corporation, as discussed in chapter 12 of this Report.

### **Late submission of information to our Office**

13.6 Our Act requires auditors to send financial statements to our Office “*forthwith after completion of the audit.*” As of 31 October 1996 the following auditors had still not complied with this legislative requirement for the 1995-96 fiscal year:

<b>Auditor</b>	<b>Agency</b>	<b>Year End</b>
KPMG Peat Marwick Thorne	Region 3 Hospital Corporation	31 March 1996
Leblanc Nadeau Bujold	Region 4 Hospital Corporation	31 March 1996
Deloitte & Touche	Forest Protection Limited	31 March 1996
Ernst & Young	New Brunswick Museum	31 March 1996
KPMG Peat Marwick Thorne	Strait Crossing Finance Inc.	30 October 1995

### **New Brunswick Power Corporation**

13.7 We were satisfied with the work done by the auditors of the Corporation for the year ended 31 March 1996. This work is directed towards reaching an opinion on the financial statements of the Corporation. As a result it may not identify all those matters which a broader scope or special examination might raise.

13.8 At the completion of the audit, the auditors issued a management letter to the Corporation. Many of the comments dealt with weaknesses in internal controls, particularly as they relate to information systems. The following is a summary of the matters raised:

- the Corporation does not have a Business Continuity Plan to ensure the continuity of operations should information systems become unavailable as a result of a disaster;
- network security, particularly password control, should be improved;
- there was no effective review of program changes to a key application system;
- accounting reconciliations, which are a key detective control, are frequently performed late and/or are not subject to review.

13.9 Management of the Corporation indicated it has or will take action to address each of the concerns noted in the management letter.

### ***Non compliance with an Order in Council***

13.10 In February 1994, an Order in Council was prepared which authorized an accounting policy for the New Brunswick Power Corporation. The Order in Council read as follows:

*Under subsection 3(7) of the Electric Power Act, the Lieutenant Governor in Council determines that public policy requires that capital costs (financial charges and depreciation)*

*associated with the Belledune Power Plant be phased in at a rate of 20% per annum for the next five years.*

13.11 This policy was adopted by the Corporation. However, as disclosed in their financial statements for the year ended 31 March 1995, a change to this accounting policy for the recognition of these costs took place effective 1 April 1994. This change resulted in the accounting policies of the Corporation being inconsistent with the terms of the Order in Council.

13.12 This matter was brought to our attention, and to the attention of the Corporation, at a meeting of the Standing Committee on Crown Corporations in June, 1996. The Order in Council was amended on 7 November 1996.

### **Workplace Health, Safety and Compensation Commission of New Brunswick**

13.13 The auditors issued a management letter to the Commission at the conclusion of their audit for the year ended 31 December 1995. Their major recommendations focused on the controls surrounding the processing of claim payments. A change in the system which handles claim payments has had the effect of weakening certain preventative controls, thereby placing more emphasis on after-the-fact reviews. The auditors also recommended the Quality Assurance department play an integral role in supervisory review.

13.14 The Commission noted the actions which had been taken or will be taken to compensate for these systems changes and enhance supervisory controls.

### **School boards**

13.15 We received and reviewed copies of the audited financial statements of each school district for the year ended 30 June 1995. We also examined the audit files supporting the Comptroller's audit opinions on two of these districts. We were satisfied with the audit work done.

13.16 In chapter 4 we refer to the recent administrative changes in school districts. As a result of these changes, the Comptroller's Office has informed us it will no longer continue specific audit testing on individual district expenditures after 30 June 1996. Accordingly, we will be expanding our own audit testing to include the expenditures of the eight administrative units. The Comptroller's Office did complete financial reviews (not full financial audits) of each school district for the year ended 30 June 1996.

### **Hospital corporations**

13.17 We received and reviewed the audited financial statements for the year ended 31 March 1995 of each of the eight regional hospital corporations. This was the first year of using a revised standard format for the annual financial statements. The format was developed in a cooperative effort between our Office, the hospital corporations, their auditors and the Department of Health and Community Services. Part of our review was to determine the degree of compliance with the new form

of presentation. We were pleased with the results. Following our review, we wrote to each hospital corporation providing detailed comments on areas where their financial statements deviated from the agreed upon format. The responses we received were positive and we are expecting even better results when we complete our 1996 review. We intend to continue our dialogue with all interested parties in order to ensure the hospital corporation financial statements continue to meet the needs of users.

13.18 Six of the eight auditors issued management letters to the hospital corporations following their 1995 audits. These letters dealt with weaknesses in internal controls and included recommendations to improve accounting procedures.

13.19 As stated earlier, we visited the offices of the auditors of six of the eight regional hospital corporations in order to review their 1995 audit working papers. In each case we were able to report we were satisfied that we could rely on their work.