

2.2 Monitoring Agencies of the Crown

Introduction

Legislative requirement

A major role of the Office of the Auditor General is to monitor Crown agencies and provide information 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 auditors' 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.

Agencies of the Crown

This table summarizes the agencies of the Crown in the Province as of 31 March 2005.

Description	2005	2004
Agencies required to prepare financial statements	77	84
Agencies considered non-financial and did not prepare financial statements	71	70
Total	148	154

Any expenditure related to the operation of the 71 non-financial entities are included with those of the Government department responsible for the entity and we audit these annually as part of our audit of the Public Accounts of the Province.

Observations

Introduction

This report summarizes our observations of the audited financial statements and management letters of Crown agencies that we have either prepared as auditors or received from private auditors. To assist us in this task, we maintain information found in these documents in our computerized system. This system provides the basis for our monitoring of all Crown agencies.

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Compliance with Section 14

Of the 77 (2004 - 84) entities required to prepare annual financial statements, 30 (2004 - 31) were audited by our Office while 45 (2004 - 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 15 December 2005, we had not received the audited financial statements and management letter for 1 of the 45 entities audited by private sector auditors, the Literacy Development Council of Newfoundland and Labrador. For the majority of the remaining 44 entities, we did not receive the audited financial statements and management letters from the private sector auditors on a timely basis. On average, audits are completed and the auditors' reports signed within 3 months after the year-end. However, in most cases, our Office does not receive the financial statements and related management letters until another 4 months after the audit report date, and often only after follow-up by our Office.

Highlights from Audited Financial Statements

Introduction

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

Bank indebtedness

For 2005, 18 entities (2004 - 25) reported a total bank indebtedness of \$96 million (2004 - \$219 million).

Audit qualifications

For 4 (2004 - 5) entities, the auditor's report contained a qualification. All 4 entities did not comply with generally accepted accounting principles regarding recording and amortizing capital assets. In addition, the auditor's report for 1 entity was also qualified because it recognized the teachers' severance and accrued liability in its financial statements without an offsetting grant receivable from the Provincial government.

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Highlights from Management Letters

Introduction

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

Status of letters

This table outlines the status of management letters as of 15 December 2005 for the entities audited either by private sector auditors or by our Office.

Management letters	Private Sector Auditors	Our Office	Total
Letters which identified issues	17	19	36
Letters which indicated no issues identified	4	8	12
No letter issued	30	0	30
Letters not finalized	1	3	4
Total	52	30	82

Note: The difference between the 45 private sector audited agencies at year and the 52 management letters is the result of reducing the number of school boards from 11 to 5 and the wind-up of the Office of the Commissioner of Petroleum Pricing during the year.

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Common issues

This table outlines the common issues found in our review of the management letters.

Issue	2005	2004
Non-compliance with Legislation		
Non-compliance with the <i>Public Tender Act</i>	2	1
Borrowing without legislative authority	0	2
Non-compliance with other legislative authorities	4	3
Internal Control Weaknesses		
Issues with the handling of money and bank accounts such as cash shortages and cheques being issued with one signature	14	7
Issues with the collection of accounts receivable	6	6
Weaknesses in controls over purchasing of goods and services including purchase orders not being used and purchases not being authorized	6	6
Issues with travel and entertainment claims such as over payment and unauthorized expenses	1	4
Issues with payrolls such as payroll advances and the approval of time sheets	4	10
Weaknesses in controls over capital assets, the most significant of which was a lack of a capital asset ledger	7	9
Other Issues		
Issues regarding the Harmonized Sales Tax	4	8
Computer related issues such as the lack of a disaster recovery plan	6	4
Issues with the board of directors such as frequency of meetings, approval of minutes and minimal activity	7	7