

Review of the March 31, 2003 HRDC Financial Statements

**Final Audit Report
Project No. 6547/02**

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Policy and Strategic Direction
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Introduction

This is a review of the HRDC financial statements. It is not an audit of HRDC expenditures as reported in the Public Accounts of the Government of Canada, which are produced using somewhat different reporting procedures and which are independently audited annually by the Office of the Auditor General.

The Treasury Board's Accounting Standard 1.1 (TBAS 1.1) requires that departments produce annually a full set of financial statements, as at March 31, and that the statements must be able to withstand audit testing. This review was undertaken to determine whether HRDC's statements meet this requirement.

The Terms of Reference for this on-going project by the former Internal Audit and Risk Management Services (IARMS) were approved by the Audit and Evaluation Committee on July 4, 2002.

As stated in those Terms of Reference, it was expected to take at least three years to develop the most efficient audit approach for performing an annual review of the consolidated financial statements of HRDC. After completing the second year, the former IARMS expected that completion of the first full cycle of testing to review all components of the financial statements could require four years. With the split of the department, the audit approach will now have to be re-evaluated.

To complete the first cycle of audit work, more work will be performed in future years on accounts payables and other liabilities; receivables; the Canada Student Loans portfolio; prepayments; revenues; transfer payments and operating expenses other than payroll. Continued documentation and assessment of the internal control framework are also planned for all major audit streams.

The second full cycle of testing should be shorter, testing all components of the financial statements over a two to three year period. Audit components will continue to be tested using a risk-based approach and, where possible, with greater reliance placed on the efficacy of internal controls. High risk components will be audited every year with low risk components reviewed on a cyclical basis unless an increase in risk is detected.

The report covering the first year of review was approved by the AEC in January 2003. That year, the audit team developed audit programs and performed detailed testing of the Old Age Security (OAS) program in five regional locations; reviewed a number of opening and closing balances; and reviewed the presentation of the overall financial statements. The team also performed preliminary work on documenting and assessing the internal control framework for OAS and the "Corporate Management System" (CMS) so they could place more reliance on controls over time. Results from last year's review of the financial statements led to improvements in the presentation of this year's statements.

We would like to thank the Accounting Operations' staff for their cooperation.

This year, for the first time, the Office of the Auditor General (OAG) relied upon our audit work, performed for the OAS at regional locations as a source of audit assurance for their audit of the financial statements of the Government of Canada.

Audit Scope

The audit work performed this year covered the following:

- Preliminary work on documenting and assessing the internal controls for Old Age Security (OAS) in three regional offices;
- Testing of OAS transactions in three regional locations;
- Preliminary work on documenting the internal controls of the Salary stream;
- Testing of Salary expenditures at NHQ;
- Testing of major accounts payable balances;
- Reviewing the reconciliation of the Employment Insurance (EI) balances;
- Reviewing the coding structure and its mapping to the financial statements;
- Reviewing the impact of the new accounting policies and the presentation of the financial statements.

Findings

Financial statement presentation

A number of possible improvements were identified with respect to both coding and presentation. While the majority were fixed this year, the remainder will be addressed in future financial statements.

It should be noted that the presentation of expenses in the Statement of Operations under the headings of “Human Resources Investment” and “Employment Insurance” has changed materially since last year. Accounting Operations has committed to add an explanatory note that describes this change in presentation prior to the publication of the statements for 2003.

Conclusion

At the level of accepted materiality:

- No material errors were identified in the financial statements;
- Based on our review, nothing has come to our attention that causes us to believe that the HRDC’s financial statements are not, in all material respects, in accordance with Treasury Board Accounting Standards; and
- The financial statements can withstand the test of audit.

However, we have identified a number of issues regarding financial controls and the consolidated financial statements that have no impact on the financial statements but should be reviewed by operational management. These have been addressed in separate management letters.

This review of HRDC’s financial statements has been conducted according to generally accepted Canadian audit standards as prescribed by the Canadian Institute of Chartered Accountants and the Treasury Board Accounting Standards.