

Review of the March 31, 2002 HRDC Financial Statements

**Final Audit Report
Project No.: 6547/01**

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1. Introduction

The Terms of Reference for this project were approved by the Audit and Evaluation Committee (AEC) on July 4, 2002. It is the first time that this type of financial review has been undertaken by the Internal Audit and Risk Management Services (IARMS). A new team of auditors was put in place for this project. As written in the Terms of Reference, it is expected to take at least three years to finalize the annual review requirements for the certification of HRDC's financial statements. Also, it is expected that the roles of Internal Audit and the Office of the Auditor General (OAG) will become clearly defined during this time.

2. Audit Scope

The audit work performed this year covered the following:

- Obtaining an understanding of the business and the audit requirements;
- Development of audit programs. This year's audit procedures involved substantive transaction testing but over time, it is planned to place more reliance on controls;
- Preliminary work on documenting and assessing the internal controls for Old Age Security (OAS) and the Corporate Management System (CMS) (General and Application controls);
- Development of a sampling approach for the audit;
- Testing of OAS transactions in five regional locations;
- Review of a number of opening and closing balances; and
- Review of the presentation of the financial statements.

Note that IARMS will continue to review general and application controls of CMS and OAS in order to be able to rely on these controls as our primary source of audit assurance. To avoid duplication this review will be done in collaboration with the OAG; By means of rotational regional visits we will continue looking at detailed transactions, processing and management controls.

3. Findings

- Preliminary results on the Internal Controls of CMS and OAS were positive. Generally, HRDC has adequate segregation of duties over the development cycle for new programs or applications;
- No errors were found in the individual OAS transactions testing;
- We relied on the OAG's testing of salary, other operating expenditures, accounts receivable and Canada Student Loans. No significant errors were found;
- Review of the financial statement presentation led to additional notes to the financial statements regarding the opening balance of Accounts Payable, Tax Revenue (Employment Insurance (EI) premiums), in-house software and leasehold improvements among others;
- Additional improvements in the presentation of future financial statements are being discussed with Accounting Operations;
- Interdepartmental transactions between EI and HRDC for administration expenses were not eliminated on the Consolidated Financial Statements. As a result, both revenues and expenditures were overstated by \$1.4 billion. The financial statements were subsequently modified to address this correction and were re-submitted to the Treasury Board Secretariat (TBS). The procedures that led to this error have been appropriately modified.

4. Conclusion

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

Suggested presentation changes to the statements as well as one material misstatement of revenues and expenditures were all corrected prior to submission of the final statements. No other material errors were noted.

Full certification of the financial statements will be completed over the next few years. As work progresses, IARMS will continue to provide support to Accounting Operations by reviewing the accounting treatment of unusual transactions and researching the best presentation practices for the financial statements. IARMS will continue to work in collaboration with the OAG. We will assist them or rely on each other's work to avoid duplication and gain efficiency.