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Introduction

The Regional Health Services Act (the Act) makes the 12 Regional Health Authorities (RHAs) responsible for the planning, organization, delivery, and evaluation of health services in their health regions.

In 2006, the RHAs had revenues totalling \$2.2 billion (\$2.0 billion from the Department of Health (Health)). They had a combined annual surplus of \$10.3 million. At March 31, 2006, the RHAs held total assets of \$1.2 billion. Each RHA's annual report contains its financial statements.

The RHAs and their appointed auditors are listed below. Our Office audits the Regina Qu'Appelle Regional Health Authority directly.

<u>RHA</u>	<u>Appointed Auditor</u>
Cypress	Stark & Marsh
Five Hills	Virtus Group LLP
Heartland	KPMG LLP
Kelsey Trail	Neumann & Neumann
Keewatin Yatthé	Meyers Norris Penny LLP
Mamawetan Churchill River	Deloitte & Touche LLP
Prairie North	Deloitte & Touche LLP
Prince Albert Parkland	Meyers Norris Penny LLP
Saskatoon	KPMG LLP
Sun Country	Meyers Norris Penny LLP
Sunrise	Parker Quine LLP

Our audit conclusions and findings

We carried out our audit responsibilities for 11 of the RHAs by working with the auditors hired by the RHAs. When we work with other auditors, we follow the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (see www.auditor.sk.ca).

In our opinion, for the year ended March 31, 2006:

- ♦ **the RHAs had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**
- ♦ **the RHAs complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter**
- ♦ **the RHAs' financial statements are reliable except for the matters reported in this chapter**

The RHAs' appointed auditors and our Office formed the opinions referred to above with the following exceptions.

- ♦ The report of the appointed auditor of the Sun Country RHA did not include the need to have an information technology (IT) disaster recovery plan. This is described later under *Information technology disaster recovery plan needed*. Also, the appointed auditor did not report the need for the RHA to have information technology policies and procedures based on a threat and risk assessment. This is described later under *Information technology policies and procedures needed*.
- ♦ The report of the appointed auditor of the Sun Country RHA did not include the improvements needed in the capital asset records. This is described later under *Capital asset records needed*.
- ♦ The reports of the appointed auditors of the Five Hills and Sun Country RHAs did not include the RHA's Board of Directors need to assess if they need an internal audit function. This is explained later under *Need for internal audit not assessed*.
- ♦ The reports of the appointed auditors of Five Hills, Kelsey Trail and Sun Country RHAs did not include the need for a service agreement with SAHO. This is explained later under *Service agreement needed*.

- ♦ The report of the appointed auditor of Keewatin Yatthé RHA did not include the overstatement of assets and revenues in the financial statements for this RHA. This is explained later under *Accounting principles not consistent with GAAP*.

When we are unable to rely on the work and reports of appointed auditors, *The Provincial Auditor Act* requires us to do additional audit work. Our additional work consisted of determining the extent that the RHAs overstated their assets and revenues, reviewing the RHAs' accountability reports and IT documentation, and discussing areas of concern with management.

In this chapter, we organize our audit findings and recommendations into four groupings. These groupings reflect important responsibilities of the boards of directors (Boards) in their role of overseeing their RHAs' operations. These are:

- ♦ setting direction and monitoring performance
- ♦ safeguarding public resources
- ♦ complying with the law
- ♦ ensuring adequate accountability to the Legislative Assembly and the public

Setting direction and monitoring performance

Boards need to set performance targets

The RHAs have made progress in setting the direction and monitoring the performance of the regions. All have adapted the goals and objectives of Health into their strategic plans. The Boards use these plans to direct management in delivering health services in their region. The Boards have outlined the expected results (objectives).

The Boards have set performance indicators to monitor progress. However, they have not yet set performance targets for most of their indicators. Once the Boards have set targets, they will need to request regular reports from management on the RHAs' progress in achieving their objectives and targets. We note that the Prince Albert Parkland RHA and Regina Qu'Appelle RHA now receive regular operational reports that show the RHAs' progress in achieving their long-term goals and

objectives. However, these reports include performance targets for only a few measures.

Performance targets help define successful achievement of an objective, help measure progress towards achieving the objective, and help prioritize objectives when an entity has limited resources and capacity.

Without Board set targets for each key indicator, management may not know if it is focusing the RHAs' scarce resources correctly and effectively to meet the Boards' strategic objectives and priorities. Also, without reporting actual performance against key targets, the Boards may not know if their objectives are being achieved according to their plans.

We reported this matter in previous reports. In June 2004, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

We continue to recommend that:

- ♦ the Boards of Directors of all Regional Health Authorities set the performance targets to monitor progress in achieving their objectives
- ♦ the Cypress, Five Hills, Heartland, Keewatin Yatthé, Kelsey Trail, Mamawetan Churchill River, Prairie North, Saskatoon, Sun Country and Sunrise Regional Health Authorities' internal reports to the boards of directors compare actual performance to planned performance

Safeguarding public resources

Boards of agencies need to ensure that management has established adequate processes to safeguard public resources. We note the following instances where processes were not adequate to safeguard public resources.

Need for internal audit not assessed

Four RHAs have not assessed the need for an internal auditor.

Large, diverse agencies with complex management systems, such as the Prince Albert Parkland, Sunrise, Five Hills, and Sun Country RHAs, need to know if their systems are adequate to meet their objectives. An internal auditor can give this assurance to the RHAs' Boards and management.

An internal auditor can also provide assurance on the reliability of financial reports and the effectiveness of controls to safeguard public resources and ensure public money is used for intended purposes.

The scope and objectives of an internal auditor depend on the requirements of the RHAs' Boards and management. The four RHAs need to do a risk assessment of their activities to determine where they are at the greatest risk of loss of public money or spending money for unintended purposes. This risk assessment should help the RHAs to decide if they need an internal auditor.

- 1. We recommend that the Boards of Directors of the Prince Albert Parkland, Sunrise, Five Hills, and Sun Country Regional Health Authorities assess whether they need an internal auditor.**

Written policies and procedures required

Regina Qu'Appelle RHA does not have adequate and documented policies and procedures to safeguard public resources.

Written policies and procedures provide for the orderly and efficient conduct of business. They also reinforce the Board's delegation of authority and the responsibilities of all staff. Written policies and procedures help reduce the risk of errors, fraud, breakdowns in control, and unauthorized transactions.

The RHA does not have adequate written financial management policies covering budgeting, monthly financial reporting, or year-end procedures. The RHA also lacks adequate documentation of its general accounting policies and procedures.

The RHA's Board needs to ensure that there are written policies and procedures for staff to follow to safeguard public resources and ensure timely and reliable interim and year-end financial reporting. It is important

that these policies and procedures be readily available to all staff. A lack of written policies and procedures may create confusion regarding delegation especially when turnover occurs.

While some policies and procedures do exist, many of them are outdated. Regina Qu'Appelle RHA began the process of establishing and documenting Board policies in 2004. The RHA has also drafted a written policy documenting signing authority procedures already in use. The RHA needs to continue this process until all policies and procedures are documented.

We reported this matter in previous reports. In June 2004, PAC agreed with our recommendation.

We continue to recommend that the Regina Qu'Appelle Regional Health Authority establish complete written financial management policies, such as budgeting, reporting, projections, revisions to plans, and general accounting procedures.

Capital asset records needed

Sun Country RHA needs better processes to safeguard its capital equipment.

The RHA uses various equipment to provide health services to its residents. To safeguard its equipment, the RHA should periodically count its equipment and agree the counts to the equipment accounting records. This would help to ensure the records are accurate and complete, and the equipment exists. Sun Country RHA did not count its equipment. As a result, the RHA does not know if all of its equipment exists and is properly safeguarded. This could also cause the RHA to make poor decisions for equipment purchases and disposals.

2. We recommend that the Sun Country Regional Health Authority ensure its equipment is safeguarded.

Service agreement needed

All RHAs need a written agreement with Saskatchewan Association of Health Organizations (SAHO) for the services provided by SAHO to the RHAs.

The RHAs use SAHO's payroll and benefit plan administration services. The RHAs do not have service agreements with SAHO setting out each party's role. However, the RHAs have Memorandums of Understanding with SAHO which expire on December 31, 2006. The memorandums do not meet all of the requirements of an adequate service agreement. For example, they do not set out service objectives for the services provided nor do they require SAHO to periodically report on its assessment of the control it has established to meet the RHAs' objectives.

The service agreements with SAHO should:

- ◆ Describe the authority and responsibility of SAHO and the RHAs.
- ◆ Describe the services to be provided and the RHAs' service-level objectives.
- ◆ Describe the RHAs' privacy and security objectives.
- ◆ Describe the basis for paying for those services.
- ◆ Require SAHO to periodically report its assessments of the control it has established to achieve the RHAs' objectives. These reports should be audited by SAHO's auditor.

3. We recommend that each of the Regional Health Authorities make service agreements with the Saskatchewan Association of Health Organizations covering services provided.

Affiliate reporting required

Two affiliated organizations need to provide the information required by the Saskatoon RHA. Luther Care Communities (Lutheran Sunset Home) and St. Elizabeth's Hospital of Humboldt did not provide the Saskatoon

RHA with auditors' reports on internal controls and legislative compliance as required under their operating agreements with the RHA.

The RHA carries out some of its services through affiliates (i.e., privately-owned hospitals and nursing homes). Without adequate reporting, the RHA cannot ensure that its affiliates are safeguarding public resources and using them for intended purposes.

- 4. We recommend that the Saskatoon Regional Health Authority obtain audited internal control and legislative compliance reports from all of its affiliated organizations as required by its operating agreements.**

Disaster recovery plan needed

Six RHAs need written, tested, and approved information technology (IT) disaster recovery plans to ensure they can continue to deliver their programs and services if their critical IT systems are not available. The plans should be based on a risk assessment that includes a prioritization of key programs and systems.

Although Keewatin Yatthé, Kelsey Trail, Mamawetan Churchill River, Prairie North, Prince Albert Parkland, and Sun Country have processes to back up their systems and data, these processes may not be sufficient in the event of a disaster.

An IT disaster recovery plan should:

- ◆ set out the responsibilities of those who are to implement the plan
- ◆ include emergency procedures to be used while the system is unavailable
- ◆ include steps for the recovery and restoration of the system
- ◆ be regularly tested and updated

We continue to recommend that the Kelsey Trail, Mamawetan Churchill River, and Prairie North prepare information technology disaster recovery plans. In June 2004, PAC agreed with our recommendation.

- 5. We recommend that the Keewatin Yatthé, Prince Albert Parkland, and Sun Country prepare information technology disaster recovery plans.**

Information technology policies and procedures needed

Seven RHAs need to establish information technology (IT) policies and procedures (processes) to ensure the confidentiality, integrity, and availability of information systems and data.

Cypress, Heartland, Keewatin Yatthé, Kelsey Trail, Mamawetan Churchill River, Prince Albert Parkland, and Saskatoon need IT processes that ensure vital information is protected, accurate, complete, authorized, and available. The RHAs should base their IT processes on a formal threat and risk analysis. A threat and risk analysis allows management to identify the policies and processes it needs to protect its systems and data. For example, the IT processes should identify who is responsible for the security of systems and data, define how access to systems is granted or removed, and clearly identify the rules that staff need to follow. The RHAs also need to define how they will monitor compliance with IT processes and address weaknesses.

Once the RHAs establish their IT policies and procedures, they need to carry out a security awareness program. Awareness training helps ensure that staff understand the security policies, the security risks, and their responsibilities for security monitoring.

Without complete IT policies and procedures, the RHAs risk the unauthorized disclosure of confidential information, reliance on incomplete and inaccurate information, and the loss of vital information.

We continue to recommend that the Cypress, Kelsey Trail, Mamawetan Churchill River, and Saskatoon Regional Health Authorities establish information technology policies and procedures that are based on a threat and risk analysis. In October 2005, PAC agreed with our recommendation.

- 6. We recommend that the Heartland, Keewatin Yatthé, and Prince Albert Parkland Regional Health Authorities establish**

information technology policies and procedures that are based on a threat and risk analysis.

Ensuring adequate accountability to the Legislative Assembly and the public

Annual reports need improvement

All RHAs need to improve their annual reports to help the Legislative Assembly and the public to assess the RHAs' performance.

For many years, our Office has encouraged improved performance reporting by the Government and its agencies. The CCAF¹ has set out reporting principles in a publication called *Reporting Principles – Taking Public Performance Reporting to a New Level*. Health has adopted this Guideline as best practice and has incorporated many of the principles into their Annual Report Guideline for Regional Health Authorities. Health also sets out some specific reporting requirements in an accountability document with each RHA.

The RHAs 2005-06 annual reports contain many of the necessary elements of a good performance report. The annual reports set out each RHA's goals and objectives for providing services to residents in the region. These goals and objectives are consistent with Health's strategic plan for the health sector. The annual reports describe each RHA's key risks in achieving its objectives but do not relate the risks to performance. Information on how these risks impact the RHAs' performance results would enhance reporting. Each annual report also includes audited financial statements and a related management report.

The annual reports describe actions taken by each RHA to meet objectives and often set out performance indicators to show progress compared to the prior year. To improve the annual reports, the RHAs should provide performance targets for each performance indicator to monitor progress in achieving the objectives. The annual reports should also provide or refer to information on how each indicator is calculated. The annual reports provide analysis explaining the results to the public for

¹ CCAF-FCVI Inc. is a public-private partnership that "is a source of support, leading edge research and capacity for members of governing bodies, executive management, auditors, and assurance providers." For more information, see www.ccaf-fcvi.com.

some of the indicators (e.g., Health Status, Outcome, and Dashboard Indicators). However the reports should provide an analysis for all reported indicators.

We encourage the RHAs to continue to strengthen their annual reports. We reported this matter in previous reports. In June 2004, PAC agreed with our recommendation.

We continue to recommend that all the Regional Health Authorities' annual reports include:

- ◆ performance targets and actual results compared to plans
- ◆ risks to achieving its objectives and how the risks are managed

Accounting policies not consistent with GAAP

In our opinion, Keewatin Yatthé RHA's financial statements for the year ended March 31, 2006 are reliable except for the incorrect recording of the RHAs' revenue and assets.

The Minister of Health made an agreement with the Keewatin Yatthé RHA for capital construction. The RHA recorded \$6.1 million in construction revenue from the GRF even though the RHA had not received the money or incurred the construction costs entitling it to the money.

In our opinion, Canadian generally accepted accounting principles (GAAP) do not permit the RHA to record revenue until it becomes entitled to the money, i.e., incurs construction costs. The recording of the \$6.1 by the RHA in its financial statements as capital fund revenue before incurring the construction costs is not in accordance with GAAP. As a result, the RHA overstated its capital fund revenue and surplus by \$6.1 million and its capital fund assets by \$6.1 million.

Keewatin Yatthé's appointed auditor, advises us that it does not agree with the accounting principle that the RHA must receive the money or incur construction costs before it can record construction revenue from the Department. The appointed auditor thinks the restricted fund method of accounting for contributions allows for the recording of the revenue in the capital fund without matching to the expense, as long as the

construction costs are likely to be incurred in the future. As a result, the appointed auditor thinks the RHA has appropriately recorded the capital fund revenue. We disagree for the reasons stated above.

For the year ended March 31, 2006, no other RHAs recorded capital revenue from Health before they incurred construction costs. Health approved the financial statements of all the RHAs regardless of which policy they chose.

We reported this matter in previous reports. In June 2004, PAC recommended that Health follow the “accounting position of the Provincial Comptroller’s Office.”

The Provincial Controller’s office told us that it agrees with RHAs recording revenue when amounts are authorized and eligibility criteria are met. However, pending the outcome of the work being conducted by the CICA, the Provincial Controller’s office accepted the position of the other six RHAs that did not record the revenue.

The Canadian Institute of Chartered Accountants (CICA) is currently examining accounting standards concerning government transfer payments (grants) to clarify principles for recording grants because current standards do not provide sufficient guidance. The CICA project is not finished. We are awaiting further clarification from the CICA.