



# Office of the Auditor General

## Our Vision

A relevant, valued and independent audit office serving the public interest as the House of Assembly's primary source of assurance on government performance.

## Our Mission

To make a significant contribution to enhanced accountability and performance in the provincial public sector.

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# 1 Message from the Auditor General

I am pleased to present my November 2010 Report to the House of Assembly on work completed by my Office in the spring and summer of 2010.

As the province's Auditor General, my goal is to work towards better government for the people of Nova Scotia. As an independent, nonpartisan officer of the House, I and my Office help to hold the government to account for its management of public funds and contribute to a well-performing public sector. I consider the needs of the House and the public, as well as the realities facing management, in providing sound, practical recommendations to improve the management of public sector programs.

My priorities are: to conduct and report audits that provide information to the House of Assembly to assist it in holding government accountable; to focus audit efforts on areas of higher risk that impact on the lives of Nova Scotians; to contribute to a better performing public service for Nova Scotia; and to encourage continual improvement to financial reporting by government; all while promoting excellence and a professional and supportive workplace at the Office of the Auditor General. This Report reflects this service approach.

I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments, and board members and staff in agencies, during the course of our work.



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## 2 Community Services: Rent Supplement Housing

The Department of Community Services' policies for rent supplement arrangements are outdated with some policies dating back to 1994. We identified areas where policies should be strengthened, as well as instances in which existing policies were not followed. For example, we found instances at Annapolis Valley Housing Authority of noncompliance with applicant placement policies. The lack of up-to-date policy guidance may lead to inconsistent approaches between Housing Authorities which could result in applicants and tenants being treated differently across the Province. We also identified instances at Annapolis Valley Housing Authority and Metro Regional Housing Authority in which waitlist information could be negatively impacted by failure to follow processes.

The Department's process to award subsidies for developing new affordable rental housing units is not adequate. In recent years, the Department has received a number of unsolicited proposals to develop new affordable rental housing. DCS does not have documented evaluation criteria for these proposals. Additionally, there is no evidence the Department followed a consistent process to assess the various proposals. Without formal processes, developers may not be treated consistently when proposals are reviewed.

The Department's policies for housing authority inspection of rental supplement units for safety issues have not been updated in over 15 years. Although policy requires unit inspections prior to a tenant moving in, we found two instances at Annapolis in which inspections were not completed and one instance in which identified safety issues were not followed up to ensure appropriate resolution.

We also found the Department of Community Services is not measuring and reporting on the effectiveness of its rent supplement programs. The Department has one performance measure in its business plan related to rent supplements; however no targets have been established for either 2009-10 or 2010-11 for this measure. Additionally, DCS does not have performance measures or targets for the housing authorities despite a recommendation by this Office in our June 2007 Report.

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## Recommendations



### ***Recommendation 2.1***

The Department of Community Services should update policy and procedure manuals and establish a process to ensure manuals are reviewed and updated regularly in the future.

### ***Recommendation 2.2***

Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant placement policies are followed.

### ***Recommendation 2.3***

Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant rejections comply with program policies.

### ***Recommendation 2.4***

The Department of Community Services should establish a formally documented process to assess rental housing development proposals, including unsolicited proposals.

### ***Recommendation 2.5***

The Department of Community Services should establish and document regular monitoring of units created using subsidies to developers to ensure these units remain affordable for the required ten years.

### ***Recommendation 2.6***

The Department of Community Services should obtain municipal occupancy permits prior to tenants moving into newly-constructed units.

### ***Recommendation 2.7***

The Department of Community Services should update policies for inspection of rental units, including documenting how deficiencies are to be followed up.

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***Recommendation 2.8***

The Department of Community Services, Metropolitan Regional Housing Authority and Annapolis Valley Housing Authority should assess the risks associated with rent supplement housing and determine if annual inspections are required. Policies should be updated to reflect the results of the risk assessment.

***Recommendation 2.9***

The Department of Community Services should establish performance measures and targets for the Housing Authorities, and performance against these targets be assessed on a regular and timely basis.





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### 3 Community Services: Services for Persons with Disabilities

The Department of Community Services has been involved in an ongoing review of the services for persons with disabilities program since 2002. Over the years, three reports have been prepared. While elements of a strategic plan are included in these documents; no operational plans have been developed. Although these reports provide the general direction for the future of the program, and many changes have taken place as a result, including implementing new program streams; there are still a number of areas in which draft policies should be implemented and operational plans prepared to guide the program into the future.

We found the Department has inadequate policies and processes for the follow up and resolution of incidents and complaints concerning unlicensed service providers. Additionally, those policies which are in place are not always followed. There is no system to record and track the status of incidents and complaints and we could not determine whether appropriate action was taken to follow up and resolve issues. We recommended that the Department implement a formal review process if the client is not satisfied with the resolution of an incident or complaint.

There was a lack of compliance with policies and procedures for client assessment, placement and reassessment. The Department has developed draft policies and we recommended these policies be implemented. We also recommended that the Department establish monitoring processes to ensure policies and procedures are followed.

At the time of our audit, Western region did not have a current waitlist. We have no way of knowing whether clients were placed according to priority. Central region had a current waitlist but we could not test this information as priority placement on the waitlist is determined through discussions among regional staff.

We recommended signed service agreements with all service providers. Additionally, standards regarding the operation of small option homes need to be strengthened and regulations need to be finalized and implemented.



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## Recommendations

### ***Recommendation 3.1***

The Department of Community Services should prepare a comprehensive strategic plan for the services for persons with disabilities program.

### ***Recommendation 3.2***

The Department of Community Services should develop a formal operational plan to address the outstanding recommendations related to services for persons with disabilities program.

### ***Recommendation 3.3***

The Department of Community Services should establish a process to monitor all goals, objectives and priorities for the services for persons with disabilities program.

### ***Recommendation 3.4***

The Department of Community Services should develop performance indicators, with established targets, for all objectives of its services for persons with disabilities program.

### ***Recommendation 3.5***

The Department of Community Services should identify the future needs for services for persons with disabilities and determine the service providers, facilities, and human resources required to address these needs.

### ***Recommendation 3.6***

The Department of Community Services should finalize and implement the revised services for persons with disabilities policy and procedure manual.

### ***Recommendation 3.7***

The Department of Community Services should develop specific policies for its small option homes program stream.



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***Recommendation 3.8***

The Department of Community Services should implement a quality assurance process to ensure all classification, assessment and placement policies are followed.

***Recommendation 3.9***

The Department of Community Services should develop processes to ensure client files demonstrate how the client's needs will be met by the program or document outstanding needs to be addressed by alternate means.

***Recommendation 3.10***

The Department of Community Services should communicate all services for persons with disabilities program policies to regional staff.

***Recommendation 3.11***

The Department of Community Services should implement its draft service standards for the residential care sector.

***Recommendation 3.12***

The Department of Community Services should prepare individual support plans and individual program plans in accordance with services for persons with disabilities policies. Additionally, plans should be prepared in a consistent format.

***Recommendation 3.13***

The Department of Community Services should finalize the implementation of revised review and reassessment policies, procedures and forms.

***Recommendation 3.14***

The Department of Community Services should implement a quality assurance process to ensure reviews and reassessments are performed and documented on a timely basis.



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***Recommendation 3.15***

The Department of Community Services should finalize and implement its new waitlist policies, procedures and forms.

***Recommendation 3.16***

The Department of Community Services should prepare monthly waitlists for the services for persons with disabilities program. Appropriate procedures should be implemented to ensure the waitlists are complete and accurate.

***Recommendation 3.17***

The Department of Community Services should require small option home operators to follow the same incident and complaint policies as other services for persons with disabilities program service providers.

***Recommendation 3.18***

The Department of Community Services should implement a reporting system which maintains a centralized record of incidents and complaints and their disposition, and which tracks the status of ongoing items.

***Recommendation 3.19***

The Department of Community Services should finalize and implement its new policies and procedures related to the notification, follow up and resolution of incidents and complaints.

***Recommendation 3.20***

The Department of Community Services should implement a formal review process for decisions made during the follow-up of program incidents and complaints.

***Recommendation 3.21***

The Department of Community Services should finalize and implement its draft special needs policy.



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***Recommendation 3.22***

The Department of Community Services should review the services for persons with disabilities program payment processes and implement additional controls to ensure amounts paid are in accordance with approved budgets and all supporting documentation and reports have been received.

***Recommendation 3.23***

The Department of Community Services should finalize the implementation of its draft residential staffing guidelines.

***Recommendation 3.24***

The Department of Community Services should provide a letter of understanding to the family or caregiver of direct family support clients outlining the roles and responsibilities of all parties.

***Recommendation 3.25***

The Department of Community Services should implement signed service agreements and service standards with all service providers.

***Recommendation 3.26***

The Department of Community Services SPD program reviews should include testing to ensure clients receive services in accordance with their individual program plans. Additionally, reviews should verify compliance with Department policies.

***Recommendation 3.27***

The Department of Community Services should implement file checklists and other quality assurance processes to ensure policies and procedures are followed.

***Recommendation 3.28***

The Department of Community Services should finalize and implement Regulations related to Homes for Special Care Act.

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***Recommendation 3.29***

The Department of Community Services and Executive Council should move forward with the proclamation of amendments to the Homes for Special Care Act.

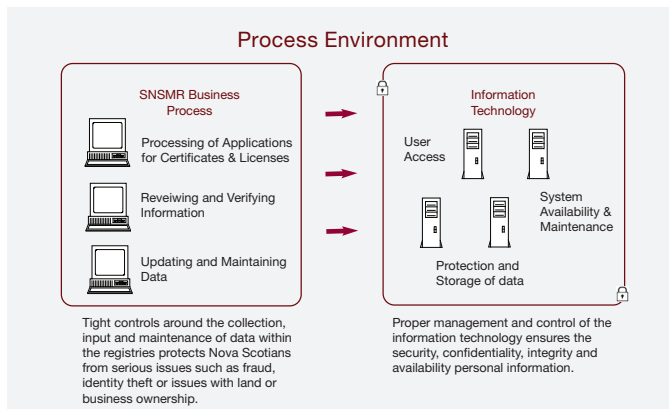
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## 4 Service Nova Scotia and Municipal Relations: Registry Systems

The Department of Service Nova Scotia and Municipal Relations (SNSMR) does not have adequate controls in place to ensure the confidentiality, integrity and availability of information in certain of its registries. Strong control is required to protect the privacy, safety and economic viability of the Department’s public and business clients.

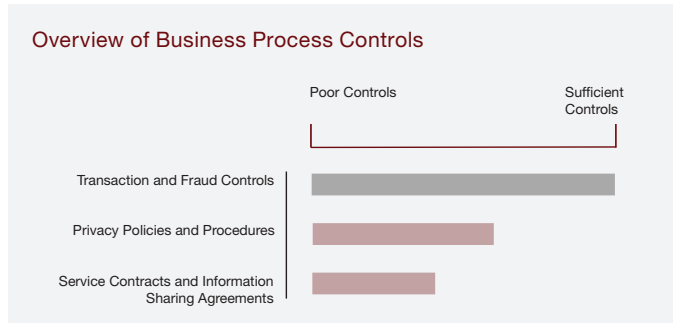
SNSMR is responsible for issuing the majority of the provincial government’s licenses, permits, registrations and certificates. Many important business and personal activities cannot proceed without these documents. Collection of a significant amount of information from individuals and businesses is necessary to assess their eligibility. Much of this information is inherently sensitive and needs adequate levels of security and control to protect its confidentiality, integrity and continued availability. Business units within SNSMR administer these processes through registries, including the four that were the subject of our audit: Land Registry, Registry of Joint Stock Companies, Nova Scotia Business Registry, and Registry of Vital Statistics.

To process licenses, permits, registrations and certificates, these business units rely heavily on departmental business processes, as well as the information technology (IT) functions that store and protect registry information. Both of these areas need to be well controlled and, consequently, were included in our audit.

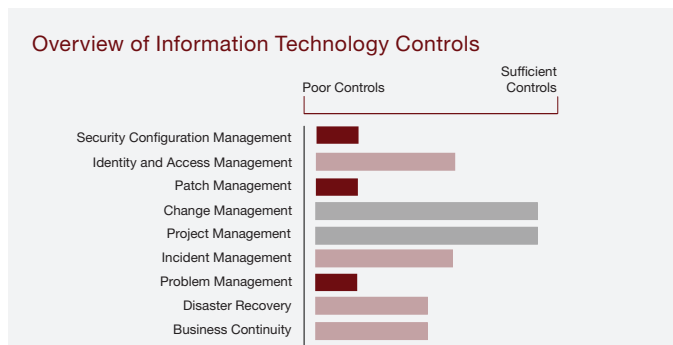




*Business Process Controls:* We found the transaction processing controls associated with the registries were adequate. However, we identified shortcomings related to adequacy of communications; application and availability of privacy policies; and sufficiency of controls around service contracts. The following chart provides an overview of the state of the business process controls our audit tested.



*Information Technology Controls:* We concluded that there are security vulnerabilities stemming from weaknesses in areas such as security configuration settings, patch management and problem management. The following chart provides an overview of the state of the information technology controls our audit examined.



Our audit considered various methods to disrupt, corrupt or gain unauthorized access to the registries. We concluded that there is a risk of exploitation from system users operating within the provincial network, such as employees and contract staff. It is important to note that internal threats can be equally as concerning as external threats.





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There have been at least two alleged cases of fraud by government employees reported in recent years. External hackers can also target internal contacts to exploit systems, through collusion, bribery and blackmail.

Unauthorized access to the systems or databases supporting the registries could result in the disclosure of sensitive information, modification or deletion of registry information, or disruption of registry operations. Impacts to individuals could include identity theft, loss of land ownership, inability to obtain needed information and certificates, or disruption of business operations.

The majority of our recommendations require relatively minimal resources to implement. These recommendations do not require the acquisition of new systems or expensive software, but rather configuration changes to existing systems and possibly additional policies and procedures. Furthermore, the control improvements we recommend will strengthen areas beyond the four registries we audited because other functions of the Department rely on the IT systems we examined.

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## Recommendations

### *Recommendation 4.1*

Service Nova Scotia and Municipal Relations should formalize its management monitoring processes and include the requirement to produce and retain evidence of management review of transactions.

### *Recommendation 4.2*

Service Nova Scotia and Municipal Relations should ensure there are procedures in place at the Land Registry to meet the monitoring requirements of the Land Registration Act Agreement with the Barristers' Society of Nova Scotia.

### *Recommendation 4.3*

Service Nova Scotia and Municipal Relations should ensure all of the policies and procedures necessary for the security of its information are current, communicated, and readily accessible to its staff and contractors.



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**Recommendation 4.4**

Service Nova Scotia and Municipal Relations should formalize its communication with and training of staff on privacy policies and the privacy breach protocol.

**Recommendation 4.5**

Service Nova Scotia and Municipal Relations should include follow-up procedures as part of its privacy impact assessment approval process to ensure any identified privacy issues are addressed before new systems or system changes are implemented.

**Recommendation 4.6**

Service Nova Scotia and Municipal Relations should ensure it adheres to the requirements of the Personal Information International Disclosure Protection Act and, specifically, that there is appropriate consent and reporting for all information being sent out of Canada.

**Recommendation 4.7**

Service Nova Scotia and Municipal Relations should ensure no information is shared before signed agreements are in place.

**Recommendation 4.8**

Service Nova Scotia and Municipal Relations should monitor information sharing agreements on a regular basis to ensure they reflect all applicable standards and legislation and are relevant to current operations.

**Recommendation 4.9**

Service Nova Scotia and Municipal Relations should use performance measures and other processes, including independent assurance, to determine if external service providers are meeting service level agreements and information maintained is secure.

**Recommendation 4.10**

The Chief Information Office should update security configuration standards based upon industry best practices and require that all government system security configurations be realigned with these standards during the system maintenance life cycles.



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***Recommendation 4.11***

Service Nova Scotia and Municipal Relations should regularly review all of its Land Registry accounts to ensure deletion of unnecessary duplicate accounts, deactivation of dormant accounts, and changing of the initial, temporary password.

***Recommendation 4.12***

The Chief Information Office should generate unique temporary passwords for all new system accounts to prevent inappropriate access to new accounts before the passwords are changed.

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***Recommendation 4.13***

Service Nova Scotia and Municipal Relations should review termination listings from its human resources division on a regular basis to verify the removal of network and registry user accounts belonging to terminated employees.

***Recommendation 4.14***

Service Nova Scotia and Municipal Relations should establish a process to ensure user accounts for external contractors are set to expire after a specified period to ensure contractors no longer have access when they are no longer providing services to the Department.

***Recommendation 4.15***

Service Nova Scotia and Municipal Relations should ensure there is a process in place that requires the following:

- configuration of its systems to include logs and reports of when user accounts were last accessed;
- regular reviews of reports and logs;
- regular reviews of user accounts and associated access privileges for all existing networks, applications, operating systems and databases; and
- procedures to determine if the owner of an account still requires access, or if certain access privileges need modification or termination.



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***Recommendation 4.16***

Service Nova Scotia and Municipal Relations and the Chief Information Office should develop a process for identifying, reviewing and implementing patches to their software in a timely manner utilizing Information Technology Infrastructure Library best practices.

***Recommendation 4.17***

Service Nova Scotia and Municipal Relations should perform a periodic review of system changes to ensure the retention of all required approvals, testing results and other key documentation.

***Recommendation 4.18***

Service Nova Scotia and Municipal Relations should review all access provided to programmers to ensure there is not a segregation of duties risk that could allow the programmer to develop and implement code without authorization.

***Recommendation 4.19***

Service Nova Scotia and Municipal Relations should use industry-standard secure coding techniques and perform security assessments to prevent security risks in its web applications.

***Recommendation 4.20***

Service Nova Scotia and Municipal Relations should develop processes which ensure all required documentation, as outlined in the Department's project management framework, has been produced or obtained for system development projects.

***Recommendation 4.21***

Service Nova Scotia and Municipal Relations should have formal, documented problem and incident management processes. This should include using help desk software that can identify recorded incidents specific to the Department and provide sufficient reporting to allow for the analysis of such incidents.



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***Recommendation 4.22***

Service Nova Scotia and Municipal Relations should complete the outstanding items in its business continuity plan, provide training to all relevant employees, and test the plan.

***Recommendation 4.23***

Service Nova Scotia and Municipal Relations should negotiate system restoration times and services with the Chief Information Office to allow for the completion of its disaster recovery plans.

***Recommendation 4.24***

The provincial datacentre, which is managed by the Chief Information Office, should document a formal disaster recovery plan for the restoration of its systems in the event of a disaster.

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## 5 Government Financial Reporting

Financial reporting is a key component of government's accountability framework. Financial reports must be reliable and accurate, and must be provided on a timely basis so that they are relevant.

Our review opinion of the 2010-11 revenue estimates included in the April 6, 2010 Budget Address was again qualified. Third-party revenues were not estimated or included in the revenue estimates and therefore the budget was not prepared on the same basis as the consolidated financial statements. This is a requirement of generally accepted accounting principles (GAAP). We have again recommended these revenues be estimated to ensure compliance with GAAP. We have also recommended that Government implement the recommendations of a consultant's report, which it has accepted, to disclose these third-party revenues in the revenue estimates, for the preparation of the next estimates.

The Minister of Finance tabled the Province's Public Accounts for the year ended March 31, 2010 on July 29, 2010. The Auditor General's opinion on the consolidated financial statements included in the Public Accounts was unqualified. In October 2010, we provided a management letter to the Minister of Finance with detailed audit findings and recommendations. Our quantitative findings were neither individually nor cumulatively significant enough to affect the audit opinion; however, all findings impact the integrity of the financial statements. We noted Government has made progress in documenting its internal controls and is continuing this process.

The Province has a new Finance Act, effective August 1, 2010. Although the Province's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector, the new Finance Act does not prescribe the accounting principles to be adopted by the Province. We feel that sound financial reporting would be strengthened by inclusion of a requirement in the Finance Act to comply with generally accepted accounting principles.

The March 31, 2010 consolidated financial statements include a \$132.6 million provision for the cost of remediation of the Sydney Steel Corporation (SYSCO) and adjacent sites. Last year, we noted that a critical step in updating the estimate of the provision would be an independent analysis of the costs necessary to complete the



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remediation of the sites. At the time of our audit for the March 31, 2010 year end, the terms of reference for this analysis had been prepared and discussions with the consultant had commenced. We have again recommended this analysis be completed on a timely basis and that the balance of the provision be adjusted to reflect this estimate.

## Recommendations

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### ***Recommendation 5.1***

The Department of Finance should include estimates of all revenues of the consolidated entity in the Provincial budget, including all agencies' third-party revenues, to ensure the budget is prepared and presented fully in accordance with Canadian generally accepted accounting principles.

### ***Recommendation 5.2***

The Department of Finance should implement the recommendations of the Deloitte LLP report, previously accepted by the Government, to disclose agencies' third-party gross revenues in the revenue estimates, for the preparation of the next estimates.

### ***Recommendation 5.3***

The Department of Finance should obtain all necessary information from departments to prepare the revenue estimates, including estimates of third-party revenues of government units, in accordance with generally accepted accounting principles.

### ***Recommendation 5.4***

The Economic and Statistics Division of the Department of Finance should ensure key economic assumptions are supported appropriately and that clearly documented management and audit trails of adjustments are maintained.

### ***Recommendation 5.5***

The Department of Finance should implement a process for a formal and documented review and challenge of the assumptions used in the preparation of the petroleum royalties estimate.



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***Recommendation 5.6***

Management should complete the review and documentation of internal controls for the consolidated financial statements and include the documentation in the Corporate Policy Manuals.

***Recommendation 5.7***

Management should assign roles and responsibilities for the design, implementation, operation and maintenance of internal controls as part of the documentation of internal controls.

***Recommendation 5.8***

The Department of Health should develop and implement controls that would ensure the accuracy and completeness of revenues and expenses of the Seniors' Pharmacare Program.

***Recommendation 5.9***

The Department of Finance's Taxation and Fiscal Policy Division should perform regular reconciliations of model-determined revenues and related accounts receivable or payable. Outstanding amounts related to closed years should be adjusted to income.

***Recommendation 5.10***

The Department of Finance's Payroll Division should ensure the process to terminate employees includes removal of access to SAP.

***Recommendation 5.11***

The Department of Finance's Government Accounting Division should ensure all non-trivial, known errors identified during the audit are corrected.

***Recommendation 5.12***

The Department of Finance's Government Accounting Division should lower the threshold for capitalizing roads, bridges and highways from \$500,000 to a level more consistent with common practice.





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***Recommendation 5.13***

The Department of Finance's Government Accounting Division should remove all inappropriate business areas and any entities which are not part of the consolidated entity from the general ledger.

***Recommendation 5.14***

The Department of Finance's Government Accounting Division should instruct departments on the identification and disclosure requirements related to determining the amount of contractual obligations at year end.

***Recommendation 5.15***

The Department of Finance's Government Accounting Division should ensure updated revenue models are prepared for the audit of the consolidated financial statements.

***Recommendation 5.16***

The Department of Finance should revise Schedule 4 of the consolidated financial statements to disclose the gross debt and sinking fund assets of the consolidated entity.

***Recommendation 5.17***

The Department of Finance's Government Accounting Division should monitor the progress of departments, including significant divisions within departments, in providing information to the Office of the Auditor General, as detailed in the schedule of audit deliverables for the consolidated financial statement audit.

***Recommendation 5.18***

The Government Accounting Division should initiate appropriate measures to ensure that all organizations forming part of the government reporting entity adopt the appropriate GAAP based on the amendment to the Public Sector Accounting Handbook.

***Recommendation 5.19***

The Department of Finance should consider expanding the Financial Statement Discussion and Analysis to include variance analysis of actual consolidated results to the consolidated budget.



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***Recommendation 5.20***

The Department of Transportation and Infrastructure Renewal should ensure an independent analysis of the costs necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites is conducted. The balance of the provision should be adjusted to reflect this estimate.

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## 6 Indicators of Financial Condition

In the February 2010 Report of the Auditor General, we presented information on certain financial indicators for the Province of Nova Scotia for the first time. In this report, we have expanded our presentation by including comparative information on these indicators from five similar jurisdictions. The information in this Chapter is for consideration only.

Information on financial condition is helpful to users of financial statements because it demonstrates how the government may be able to respond to changes in the economic climate. The usefulness of this information is supported by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). In 2009, PSAB issued Statement of Recommended Practices (SORP) 4: Indicators of Financial Condition.

The Public Accounts currently contain information on the economy but not information on how the Province is performing in that economy. That is the intent of the SORP. The SORP recommends that, at a minimum, indicators related to government's sustainability, flexibility and vulnerability to its economic climate be disclosed. Governments are not required to implement recommendations under the SORP.

The indicators we considered each demonstrate the financial condition of the Province. Most indicators present results from 2006 to 2010. This timeframe is shorter than that included in our February 2010 Report in order to easily present comparative information.

One indicator may best illustrate the challenges facing the Province. The annual operating results have been presented for nine years. The deficit of \$329.6 million (restated) for the year ended March 31, 2010 is the first deficit of this decade. This indicator demonstrates the risks facing government in maintaining the programs and services it currently provides, as well as the policy and operational decisions it must make in light of its financial health.



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## 7 Review of Agency Financial Statements and Management Letters

Under Section 17 of the Auditor General Act, we conduct a review of the audit opinions and related management letters of agencies which comprise the government reporting entity (GRE) that are audited by private sector auditors. We consider those results, as well as results from our audits of agencies within the GRE, when auditing the consolidated financial statements of the Province. The purpose of this Chapter is to highlight matters of interest as a result of this review.

Although the majority of audits conducted on agencies within the GRE resulted in unqualified audit opinions, there were also a number of qualified opinions. The audit opinions for several of the school boards were qualified due to the inability of the auditors to verify the completeness of school-based funds. In our view, these qualified opinions do not diminish the usefulness of the related financial statements, however, we have suggested the Department of Education work with the boards to develop appropriate systems and controls to ensure the accuracy and completeness of this significant revenue, and to obtain unqualified audit opinions.

During our review of management letters we found auditors had identified numerous internal control and information technology deficiencies. Many deficiencies identified by auditors in the prior year still existed in 2009-10. We noted that approximately 33% of the recommendations made in 2009-10 were repeated from 2008-09, and of these, over half had been reported in 2007-08. Deficiencies were also identified in two provincial loan funds regarding documentation to support financial statement balances.

Control weaknesses will continue to be identified as auditors increase their awareness of the control environment in these agencies. Management should address the deficiencies identified by their auditors to ensure the integrity of their financial systems and financial reporting processes.