



At a Glance



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5 Results of Audits and Reviews

Summary

The review report on the 2014-15 revenue estimates was unqualified. Nova Scotia is the only province in Canada to have an annual review report on its revenue estimates, an accomplishment for the province of Nova Scotia. However, we found that certain tax model assumptions are not subject to periodic review. We recommended that the Department of Finance and Treasury Board develop a process to review all tax model assumptions on a periodic basis, especially those that are not subject to annual review as part of the estimate process. We also found that petroleum royalty inputs were not adequately reviewed for accuracy; we recommended that the Department of Energy develop a process to review inputs and calculations used in estimating petroleum royalties to ensure assumptions are the most current.

During the year, the Department of Finance and Treasury Board's Taxation and Fiscal Policy Division kept us informed of changes in models to calculate tax revenue and we found significant improvement in their change management process.

The audit opinion on the province's 2013-14 consolidated financial statements was unqualified. However, we experienced issues in completing the audit engagement as efficiently as we would like due to a lack of accurate supporting documentation for debt servicing costs. We have made recommendations to improve the audit process. We are pleased to report no significant deficiencies were identified in internal controls during the audit.

We issued unqualified audit opinions for three of four audits we conducted in government agencies for the year ended March 31, 2014. The audit opinion on Trust Funds Administered by the Public Trustee was qualified due to the inability to verify that all assets that came under the Public Trustee's administration, or income related to these assets, were recorded by the Public Trustee. This is because clients referred to the Public Trustee can be accepted prior to the physical transfer of such assets to that Office. Therefore, asset verification was limited to recorded amounts.

We recommended again that the Public Trustee put in place an accounting system to better support the administration of the \$45 million in estates and trusts under that Office's control. We also recommended that the Public Trustee implement our prior year recommendations on the administration of the Common Fund and the Special Reserve Fund.

We recommended that the Nova Scotia Crop and Livestock Insurance Commission discuss with government officials the appropriateness of its processes to ensure members, many who are also producers, avoid conflicts of interest in performing their duties. Management should ensure the operations manual is kept up to date to ensure federal portion of premium revenue is collected on a regular basis.



We acknowledged the efforts of the Nova Scotia Legal Aid Commission's review of six key areas of the process to estimate legal fees, addressing our prior year recommendation of testing the reasonableness of the system. Management suggested more review and analysis be done and we recommended a complete review be conducted to ensure the liability reflects management's best estimate.

We recommended to the Nova Scotia Provincial Lotteries and Casino Corporation that the statement of retained deficit be expanded to detail all changes in equity. As part of our audit on compliance and controls related to members' expenses at the House of Assembly, we recommended that improvements be made in the systems and controls over Commission assets.

5 Results of Audits and Reviews



Background

- 5.1 Government financial reporting consists of two distinct components – reporting on financial condition, and reporting on financial performance. The province’s consolidated financial statements, included in Volume 1 of the Public Accounts, include both these components.
- 5.2 Financial condition provides information on government’s financial health at a point in time. One of the most significant reports on financial condition is government’s balance sheet – or statement of financial position – at its fiscal year end. Two key measures of government’s financial health are the extent to which government can honour its future obligations through realizing its financial assets, such as cash, investments, and accounts receivable, and its non-financial assets, such as buildings and other fixed assets. Net debt is used to define the deficiency between financial assets and liabilities. Accumulated surplus or deficit is the result of subtracting non-financial assets from net debt. In other words, accumulated surplus or deficit shows how much of net debt was used to purchase assets that will be used to provide government services.
- 5.3 The statement of operations provides summary level information on annual financial performance. It also includes government’s approved budget for the year. Financial statement users can evaluate the extent to which government has met its fiscal plan. The statements of changes in net debt and cash flow provide additional information to users on how government has financed its operations and capital acquisitions.
- 5.4 While providing summary level information on financial condition and performance, the province’s consolidated financial statements also serve the following purposes.
 - Elected officials use financial information to make decisions regarding the allocation of scarce resources.
 - Taxpayers use financial reports to assess government’s stewardship over the resources entrusted to them.
 - Other users, such as lenders and credit rating agencies, use financial reports to meet their specific needs.
- 5.5 In Nova Scotia, the Finance Act specifies financial reporting requirements for the province, including tabling of the Public Accounts. Other requirements are the annual estimates (budget), and periodic forecast updates comparing



forecasted results at a point in time during the year with the budget. These reporting requirements are part of the government's accountability framework and contribute to oversight and the efficient use of resources.

- 5.6 Under section 19 of the Auditor General Act, this Office is the legislated auditor of the province's Public Accounts. Further, under section 20 of the Act, the Auditor General conducts a review of the estimates of revenue used in preparing the Minister of Finance and Treasury Board's budget address to the House of Assembly. The primary purpose of this chapter is to provide the results of our legislated requirements with respect to government financial reporting, and to make recommendations for improvements to government processes related to financial reporting.
- 5.7 In addition to the above, the Auditor General is the legislated auditor of four government entities.
- Nova Scotia Crop and Livestock Insurance Commission
 - Nova Scotia Legal Aid Commission
 - Nova Scotia Provincial Lotteries and Casino Corporation
 - Trust Funds Administered by the Public Trustee
- 5.8 In 2014, the Auditor General conducted an audit under section 22 of the House of Assembly Management Commission Act. This audit was to express opinions on the following:
- whether expenses incurred by the Assembly are in accordance with the policies of the Commission and, where applicable, Nova Scotia's public service policies; and
 - whether the Chief Clerk's assessment of the effectiveness of internal controls of the House of Assembly is fairly stated and whether the internal controls are operating effectively.
- 5.9 At its February 27, 2014 meeting, the House of Assembly Management Commission approved removing the requirement for annual audited financial statements from the Commission's Act. We agree with this decision. Consequently, the Commission did not prepare financial statements for the year ended March 31, 2014, and accordingly no audit was performed.
- 5.10 The government reporting entity includes numerous boards, agencies and commissions. Many of these produce annual budgets and provide financial statements. These individual results, which are consolidated with departmental results in the province's consolidated financial statements, provide further information through which users can assess stewardship of public funds. In the conduct of our audits, we communicate with those charged with governance and management at each entity.



Chapter Objective

5.11 The objective of this chapter is to provide summary comments and recommendations on government financial reporting.

- Results of our review of the revenue estimates for the year ended March 31, 2015, included in the April 3, 2014 budget address
- Information resulting from our audit of the province's March 31, 2014 consolidated financial statements
- Results of financial statement audits conducted by our Office at certain government agencies
- Results of our audit of controls and compliance of member transactions with the House of Assembly Management Commission Act and regulations

Significant Observations

Review of 2014-15 Revenue Estimates

Conclusions and summary of observations

The review report on the 2014-15 revenue estimates was unqualified. Nova Scotia is the only province in Canada to have an annual review report on its revenue estimates, a significant accomplishment in demonstrating stewardship and accountability. However, we found that certain tax model assumptions are not subject to review. Therefore, we recommended that the Taxation and Fiscal Policy Division of the Department of Finance and Treasury Board develop a process to review all tax model assumptions periodically, especially those which are not analyzed by Department staff as part of the annual estimates process. This would help better ensure tax revenues reflect management's best estimate of all factors in their calculation. We also noted that petroleum royalty inputs were not adequately reviewed for accuracy, so we recommended that the Department of Energy develop a process to review inputs and calculations used in the models to estimate petroleum royalties to ensure assumptions are the most current and reflect approved factors. The Taxation and Fiscal Policy Division kept us informed of changes in models used to calculate tax revenue. We noted a significant improvement in their change management process.

► Unqualified report on 2014-15 revenue estimates

5.12 *Unqualified opinion* – Under section 20 of the Auditor General Act, the Auditor General is required to provide a report on the reasonableness of the revenue estimates included in the budget tabled with the House of Assembly. We issued an unqualified report on the 2014-15 revenue estimates. This was included in the



April 3, 2014 budget address provided by the Minister of Finance and Treasury Board.

- 5.13 The review report covers the 2014-15 revenue estimates, including all those components of the budget that meet the definition of revenue for purposes of financial reporting in accordance with Canadian generally accepted accounting principles (GAAP). Under this definition, the 2014-15 revenue estimates encompass the following components included in the government's budget.
- Ordinary revenues
 - Sinking fund earnings
 - Recoveries and fees
 - Revenue of government units included in the Consolidation and Accounting Adjustments for government units section of the budget summary
 - Net income from government business enterprises
- 5.14 Nova Scotia is the only province in Canada to have an annual review report on its revenue estimates. This is a significant accomplishment in stewardship and accountability.
- 5.15 *Assumptions* – Certain tax revenues (Personal Income Tax, Corporate Income Tax and Harmonized Sales Tax) and Petroleum Royalties are estimated using statistical models. Various economic assumptions are used as part of the modeling process, including gross domestic product, employment rate, the consumer price index, and interest and exchange rates. Other assumptions are based on past events such as results of prior year tax filings and the growth in tax rebates.
- 5.16 Some assumptions, such as interest and exchange rates and the consumer price index, are updated annually. Other assumptions are not subject to annual review and certain of these have not been examined in over 10 years, including the tax elasticity assumption which measures the extent to which Nova Scotia's taxable income share changes compared to corporate profits.
- 5.17 The Department of Finance and Treasury Board's Taxation and Fiscal Policy Division does not have a process to review assumptions not subject to change each year and to periodically assess whether each remains appropriate. This review process would ensure tax and other model-derived revenues reflect management's best estimate of all factors used in their calculation.

Recommendation 5.1

The Taxation and Fiscal Policy Division should develop a process to periodically review all tax model assumptions to ensure model-derived revenues reflect management's best estimate, especially those assumptions which are not subject to annual review as part of the estimates process.



Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board agrees with this recommendation. Work is in progress to implement this recommendation. The Department is pleased that its change management process improvements with the tax models have been found to be satisfactory and timely.

5.18 *Petroleum royalties* – There were numerous issues noted with the review of petroleum royalties, specifically around the natural gas price assumptions used in the estimate. Natural gas prices used to calculate royalties were not those approved by Treasury Board; the inflation rate was not appropriately updated; price changes estimated for 2015 were not used; and a conversion factor for natural gas measurements was applied twice. The number of deficiencies suggests improvements are needed in the process to ensure the estimates reflect the most accurate assumptions and calculations.

► Petroleum royalty model inputs not adequately reviewed

5.19 In the past, we have reported the need for a review of inputs used in the models to determine petroleum royalties. This would ensure assumptions are the most current and reflect approved factors. The review should also include a review of model calculations. This would confirm the accuracy of amounts included in the final revenue estimates presented in the budget, and address the issues we identified with petroleum model inputs.

Recommendation 5.2

The Department of Energy should develop a process to review inputs and calculations used in the models to estimate petroleum royalties.

Department of Energy Response: The Department of Energy agrees with this recommendations. In order to ensure that the key inputs in the royalty forecast are accurate, on a go-forward basis, the Department has developed a policy whereby the Manager will prepare the key inputs and royalty forecast, and the Director will review the key inputs before the forecast is released to Finance.

5.20 *Change management* – There are best practices for making changes to information systems. In prior years, we have recommended that management and staff in the Taxation and Fiscal Policy Division follow these change management best practices when updating models used to calculate tax revenue or when a new application is adopted. These practices include approval, and isolating the impact of each change to assess its significance. This provides a management trail to ensure the integrity of revenue estimates.

► Changes to tax models were well-managed

5.21 During the current year, Division staff kept us informed of model changes and we found significant improvement in the change management process. We want to acknowledge the improvement made to this process over the past year, and



particularly the Division's efforts to keep us informed of changes on a timely basis.

Audit of the March 31, 2014 Consolidated Financial Statements

Conclusions and summary of observations

The Public Accounts were released on July 31, 2014. The audit opinion on the 2013-14 consolidated financial statements was unqualified. We are pleased to report no significant deficiencies in internal controls were identified during the audit. However we noted the following concerns.

- We experienced issues in completing the audit engagement as efficiently as we would like due to a lack of accurate supporting documentation for debt servicing costs.
- An incorrect payment for \$10.9 million was made from sinking funds rather than the general revenue fund.
- Our testing at the Department of Community Services identified problems in conducting reassessments of eligibility of Employment Support and Income Assistance clients and Services for Persons with Disabilities clients.
- The Department of Health and Wellness was unaware of the internal control deficiencies at Medavie, the private sector service provider which administers significant provincial medical programs.

5.22 *Introduction* – Our Office is the legislated auditor of the province's consolidated financial statements. We are required by section 19 of the Auditor General Act to perform the annual audit of the province's consolidated financial statements. Our overall objectives as auditors of the statements are to:

- obtain reasonable, but not absolute, assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- report on the consolidated financial statements, and communicate our audit findings, as required by Canadian Auditing Standards.

► Unqualified opinion on province's March 31, 2014 consolidated financial statements

5.23 *Unqualified audit opinion* – The Auditor General issued an unqualified opinion on the province's March 31, 2014 consolidated financial statements, which were released by the province on July 31, 2014. The unqualified audit opinion indicates the consolidated financial statements are presented fairly, in all material



respects, in accordance with Canadian generally accepted accounting principles for the public sector, which are issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. The unqualified audit opinion also indicates there were no quantitative findings, either individually or cumulatively, which were material enough to impact the opinion.

5.24 Our office provided a letter to the Minister of Finance and Treasury Board on August 7, 2014. It included required communications to those charged with governance under Canadian Auditing Standards, and other matters that came to our attention during the course of the audit, which we believe the minister should be aware of. We also provided a management letter to the deputy minister of Finance and Treasury Board in November 2014. This communication included detailed audit findings, recommendations and other comments related to the March 31, 2014 Public Accounts. The more significant information included in the management letter is noted below under the following headings.

- Audit completion
- Internal control
- Other matters

Audit Completion

5.25 Canadian Auditing Standards require that we communicate to those charged with governance, such as the Minister of Finance and Treasury Board or Executive Council, the following information:

- significant matters, if any, arising from the audit that were discussed or subject to correspondence with management; and
- other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

5.26 As part of the audit, we also provide specific information about the findings of our audit in a management letter to the deputy minister of Finance and Treasury Board. The management letter communicates difficulties encountered during the audit, audit findings, and any other matters arising from the audit that we feel should be communicated to management. Issues that directly impacted audit completion and that, in our judgment, are important to oversight of the financial reporting process are noted below.

5.27 *Capital Markets Administration – debt servicing costs* – In 2013-14, debt servicing costs totaled \$886 million or almost 9% of total revenues. Within the Department of Finance and Treasury Board, the Capital Markets Administration Division supports the Liability Management and Treasury Services Division by



accounting for debt, debt servicing costs, short term investments, short term borrowings, foreign exchange impacts and sinking funds.

► Inaccurate support for debt servicing costs

5.28 The Capital Markets Administration Division processes both debt servicing transactions and sinking fund transactions. Sinking funds are set aside for the repayment of debt. The Division provided us with multiple versions of schedules supporting interest costs for Canadian debt issues, all containing errors with sinking fund swaps, which affected the debt servicing costs. This led to additional audit work and delayed the efficient completion of the audit of that section.

Recommendation 5.3

The Department of Finance and Treasury Board's Capital Markets Administration Division should verify the accuracy of supporting schedules provided as audit evidence.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board agrees with this recommendation and will ensure that all documentation provided as audit support is verified for accuracy.

Internal Control

5.29 *Responsibility for internal control* – The Finance Act includes general references to the roles and responsibilities of the minister and deputy minister relating to internal control. The Controller prepares the consolidated financial statements of the province of Nova Scotia on behalf of the minister and deputy minister of the Department of Finance and Treasury Board as noted in the statement of responsibility for the consolidated financial statements. The statement of responsibility also notes “*The government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained.*”

5.30 Our audit is planned and conducted to enable us to express an audit opinion on the annual consolidated financial statements, not to express an opinion on the internal controls of government, or to determine whether internal controls are adequate for management's purposes.

► No significant internal control deficiencies identified

5.31 Certain matters related to internal controls and other financial reporting issues which came to our attention during the conduct of the audit, were communicated to the Department of Finance and Treasury Board in a management letter. Implementation of the recommendations in the management letter and this chapter will facilitate better preparation of the consolidated financial statements.



However, none of the identified internal control matters was significant, and we reported that there were no significant deficiencies in internal controls noted during the audit that required communication with those charged with governance, as would be required by Canadian Auditing Standards.

- 5.32 *Risk assessments related to the consolidated financial statements* – A strong internal control framework includes control and governance practices and other processes that enable the organization to achieve its objectives. One identified element is an assessment of risks to the fair presentation of the consolidated financial statements. Each year, we enquire about risk assessment practices, specifically those risks that relate to preparation of the consolidated financial statements.
- 5.33 Financial reporting risks include the risk of material misstatement due to error or fraud. These risks can be reduced by standard management practices such as documented policies and procedures and monitoring of internal controls.
- 5.34 In the past, we have reported that departments have not conducted assessments of risks to the fairness of consolidated financial statements. We had requested these risk assessments as part of our audit information but because they were not available, we asked the Controller's Office to identify the significant risk areas to the general revenue fund's financial statements as well as the consolidated financial statements. The Controller's Office pointed to an annual Internal Controls over Financial Reporting program that is being conducted in phases, in response to our request for these risk assessments. We are aware the Department has hired a consultant to evaluate risks to the consolidated financial statements at numerous entities within the government reporting entity. We await the results of this work and will review results.
- 5.35 In addition, we are aware that efforts have been made at the Department level with the implementation of risk control checklists. These risk control checklists contain predetermined control objectives and control activities that address the control objectives. Departments are to identify applicable control activities and provide details specific to their department. We will meet with the Department during the March 31, 2015 audit to discuss the results of this process.

► Incorrect payment made from sinking funds

- 5.36 *Capital Markets Administration – debt servicing costs* – During the year, a journal entry to record a debt maturity was entered in the general ledger incorrectly, and a \$10.9 million payment for interest was made from sinking funds rather than the general revenue fund. This payment contravenes the Finance Act, which states that only payment on debt, not interest, can be made from the sinking fund. In an effort to correct this matter, an entry was made during the audit. However, this entry had to then be reversed because it resulted in a \$10.9 million understatement of debt servicing costs.



- 5.37 These transactions demonstrate that additional review is required when preparing and approving journal entries. Such review provides assurance that amounts recorded in the general ledger are complete and accurate.

Recommendation 5.4

The Department of Finance and Treasury Board's Capital Markets Administration Division should increase the extent to which support for transactions is reviewed for accuracy and appropriateness.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board agrees with this recommendation and will ensure that support for transactions is accurate and appropriate.

- 5.38 *Employment support and income assistance programs* – During our testing of employment support and income assistance payments, and services for persons with disabilities payments at the Department of Community Services, we noted several instances in which client eligibility was not reassessed as required by Departmental procedures. Periodic eligibility reassessment helps to ensure that a client receiving assistance is still entitled to it and is receiving the correct amount. It would also help to ensure that clients are considered for all eligible and suitable programs should their situation change.

► Inadequate eligibility reassessments at Department of Community Services

- 5.39 We tested a total of 23 payments consisting of employment support and income assistance payments and payments for services for persons with disabilities. Of the 23 samples tested, seven (30%) of those samples did not have a current eligibility reassessment in accordance with Departmental procedures. In one instance, the eligibility reassessment was almost four years past due.
- 5.40 Departmental staff were helpful in explaining the reassessment process to us using a sample client file. However, this client's file exhibited the following errors.
- The last eligibility reassessment was completed in 2011.
 - Unreported income was identified during that reassessment, and confirmed by the client.
 - Although the client was flagged for the Department's overpayment processes, the information had not been forwarded as of June 2014.
 - Payments to the client have continued at the same rate.
- 5.41 Eligibility and the amount of assistance to be provided by the Department are determined as a result of the initial assessment process and supported through reassessments. As we were not testing internal controls as part of our audit procedures at the Department, we are not aware of the full extent of the processes to



verify eligibility and calculate the amount of assistance. However, we understand through discussions with Departmental staff that our findings indicated there were deficiencies in these controls and that improvements are required.

Recommendation 5.5

The Department of Community Services should reassess eligibility of clients as required by the Department's procedures to ensure ongoing validity of payments.

Department of Community Services Response: The Department of Community Services agrees with this recommendation. We have a program requirement to reassess a client's eligibility at least once per year and to update the client consent forms and other required documentation. Staff in the Employment Support and Income Assistance (ESIA) Program division have taken immediate steps to address the outstanding annual reviews. Specifically, reports identifying the overdue annual reviews have been sent to each region with a requirement that the regions assign staff to complete the reviews and report the progress to the Program division on a monthly basis. Program division staff will continue to monitor the status of the overdue reviews.

Recommendation 5.6

Department of Community Services' management should monitor the operating effectiveness of controls to reassess client eligibility on a regular basis.

Department of Community Services Response: The Department of Community Services agrees with this recommendation. A number of processes are in place to help identify when there are issues related to the eligibility of clients. We are undertaking a major initiative of benefit reform that will modernize benefits, systems, and processes. All recommendations and findings from this audit will be considered as part of this initiative.

► Health and Wellness has not been provided report on internal control deficiencies at Medavie

5.42 *Medavie Inc.* – Medavie has been contracted by the Department of Health and Wellness to administer certain programs including medical services insurance and pharmacare. As part of the contract, Medavie provides audited financial statements to the Department for the programs administered under the agreement. Medavie's auditor also provides Medavie with a report noting internal control deficiencies identified during the audit. However, the Department of Health and Wellness has not received this report.

5.43 As Medavie is administering \$917 million in claims on behalf of the Department of Health and Wellness, the Department should be aware of reported audit issues, especially any internal control deficiencies which may impact the completeness and accuracy of program payments. It is important that the Department is aware of these risks and can assess their potential impact.



Recommendation 5.7

The Department of Health and Wellness should obtain all auditor correspondence resulting from the audit of the medical services insurance program. The Department of Health and Wellness should follow up with the service provider (Medavie) to ensure internal control deficiencies identified by the auditor are addressed on a timely basis.

Department of Health and Wellness Response: The Department of Health and Wellness agrees with this recommendation and is working with Medavie to ensure internal control deficiencies are being appropriately addressed by Medavie and that the Department of Health and Wellness will receive this information on a timely basis in the future.

Other Matters

- 5.44 *Required communication of audit results* – The engagement letter provided to the Minister of Finance and Treasury Board in May 2014, identified responsibilities of management and those charged with governance (that is, the Minister of Finance and Treasury Board, and Executive Council) with respect to the preparation and oversight of the consolidated financial statements. The letter also communicated our responsibilities as auditors of these statements. The report to those charged with governance – issued to the minister on completion of the audit – communicated requirements under Canadian Auditing Standards and other matters that came to our attention during the course of the audit. The report included a summary of unadjusted differences, and our conclusion on the fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles for the public sector. A management letter was issued to the deputy minister of the Department of Finance and Treasury Board in October 2014. This letter detailed audit findings and results, and provided recommendations for improvement.
- 5.45 *New accounting standards* – Some of the more significant issues on which the Public Sector Accounting Board has recently released new pronouncements include liability for contaminated sites (in effect for the current year), foreign currency translation, and financial instruments. New standards or guidance could require changes to government’s financial reporting in the future. The nature and impact of required or planned accounting changes should be disclosed as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.
- 5.46 *Liability for contaminated sites* – The liability for contaminated sites standard provides guidance on how to account for and report a liability associated with the remediation of contaminated sites. It is effective for fiscal years beginning on or after April 1, 2014. Management believes there will be no significant impact on future financial reporting as a result of adopting this standard due to the Contaminated Sites Regulations that came into effect this year.



- 5.47 *Foreign currency translation and financial instruments* – The most significant change related to new standards for foreign currency translation and financial instruments is the requirement for a new financial statement – the statement of remeasurement gains and losses. This will include gains and losses from holding items denominated in a foreign currency at year-end, as well as certain other financial instruments. The effective date for these sections was extended to April 1, 2016 for governments.

Audit of Government Agencies

Conclusions and summary of observations

- We issued unqualified audit opinions for three of four audits we conducted in government agencies for the year ended March 31, 2014.
- The audit opinion on Trust Funds Administered by the Public Trustee was qualified due to the inability to verify that all assets that came under the Public Trustee's administration, or income related to these assets, were recorded by the Public Trustee. This is because clients are referred to the Public Trustee and if accepted, a process to determine all assets belonging to that client is begun. This process takes time, and may be ongoing at year end. Therefore, asset verification was limited to recorded amounts.
- We recommended again that the Public Trustee put in place an accounting system to support the administration of the \$45 million in estates and trusts under that Office's control. We also repeated prior year recommendations with respect to the Common and Special Reserve Funds administered by the Public Trustee.
- Nova Scotia Crop and Livestock Insurance Commission should discuss with government officials the appropriateness of its processes to ensure board members avoid conflicts of interest in performing their duties. We also recommended increased efforts be made to ensure the timely collection of the federal portion of insurance premium revenue.
- We acknowledged the efforts of the Nova Scotia Legal Aid Commission's review of six key areas of the process to estimate unbilled legal fees and recommended a complete review be conducted to ensure the liability reflects management's best estimate.
- Nova Scotia Provincial Lotteries and Casino Corporation's Statement of Retained Deficit should be expanded to incorporate all changes in equity during the year.
- Finally, we issued an unqualified opinion on compliance and controls related to members' expenses as required under the House of Assembly Management Commission Act. We recommended that improvements be made in the systems and controls over Commission assets.



5.48 *Introduction* – The Auditor General is the legislated financial statement auditor of four government agencies.

- Nova Scotia Provincial Lotteries and Casino Corporation
- Nova Scotia Legal Aid Commission
- Nova Scotia Crop and Livestock Insurance Commission
- Trust Funds Administered by the Public Trustee

5.49 Audits of other government agencies are conducted by private sector auditors. Under section 23 of the Auditor General Act, the private sector auditor is to provide us with a copy of the audit report and audited financial statements of the government agency, along with a copy of the report to management or the board of findings and recommendations. Our office also has the authority to request all records, working papers, and other documents as we deem necessary. This information is communicated to all private sector auditors. The results of those audits and our comments on the recommendations made by their auditors are included in chapter 6 of this report.

5.50 In addition, the Auditor General conducted an audit under section 22 of the House of Assembly Management Commission Act during fall 2014. The audit objective was to express opinions on: whether expenses incurred by the Assembly are in accordance with the Commission's policies and, where applicable, the province's public service policies; whether the Chief Clerk's assessment of the effectiveness of internal controls of the House of Assembly is fairly stated; and whether the internal controls are operating effectively. The House of Assembly Management Commission approved removing the requirement for an annual financial statement audit; therefore, an audit on the financial statements of the House of Assembly was not required in the current year. We agreed with this decision.

▶ Audit opinions for three of four government agency audits we conducted for the year ended March 31, 2014 were unqualified

▶ Qualified opinion on Trust Funds administered by the Public Trustee

5.51 *Audit results* – Unqualified audit opinions were issued in three of the four agencies we audited. The audit opinion of the Trust Funds Administered by the Public Trustee was qualified. Clients are referred to the Public Trustee and if accepted, the Public Trustee will begin a process to determine all the assets belonging to that client. The process takes time, and may be ongoing at year end, therefore we were unable to verify that all assets, or income related to these assets, were recorded by the Public Trustee. Asset verification was therefore limited to assets recorded in the records.

5.52 The opinions related to our audits under the House of Assembly Management Commission Act were unqualified.



5.53 *Audit findings and observations* – We issue a letter to management or, if applicable, to the chair of the board or audit committee, in each of the agencies we audit which details our audit findings, observations, and recommendations for improvement. We seek input from management to ensure that recommendations can be implemented, and we follow up the implementation status of these recommendations during the subsequent year’s audit. The following paragraphs describe the findings and observations from each audit as well as the recommendations made.

Nova Scotia Provincial Lotteries and Casino Corporation

5.54 We provided a management letter to the chair of the audit committee of the Nova Scotia Provincial Lotteries and Casino Corporation in July 2014, and reported that we found no significant errors or deficiencies during our audit. We noted that the consolidated statement of retained deficit does not detail all changes in equity during the year, as required by International Financial Reporting Standards. We recommended the statement be revised in future years.

Nova Scotia Legal Aid Commission

5.55 We provided a management letter to the chair of the Audit Finance Committee of Nova Scotia Legal Aid Commission in September 2014. In prior years, we recommended a review of the certificate liability system, used to estimate the liability for unbilled legal services performed on cases undertaken by a private sector solicitor, to ensure the liability is reasonable. Nova Scotia Legal Aid Commission conducted a system review in six key areas, fully implementing our prior year recommendation. Management has indicated that more review and analysis should be conducted. We acknowledged their efforts and recommended a complete review be conducted to ensure the liability reflects management’s best estimate.

Nova Scotia Crop and Livestock Insurance Commission

5.56 We provided a management letter to the Chair of the Nova Scotia Crop and Livestock Insurance Commission in September 2014. The Commission’s Board members are appointed because of their knowledge of agriculture, but many are also producers, which may give the appearance of a conflict of interest with respect to decisions made by members on all crops, including those they produce. We recommended the Commission Board discuss with government officials the appropriateness of its processes to ensure members avoid conflicts of interest in appearance and in fact while performing their duties.

5.57 We noted premium revenue receivables from the federal government were outstanding for over a year, with some outstanding since at least 2009-10. We recommended that management ensure the operations manual is kept current to ensure the federal portion of premium revenue is fully collected on a regular basis.



- 5.58 In the prior year, we reported several issues related to errors in insurance premiums found during the audit. We are pleased to report this decreased significantly during this year's audit. We are also pleased to report that our recommendation in the prior year to establish an audit committee has been implemented. This year we suggested that the committee develop terms of reference detailing its mandate and conduct.

Trust Funds Administered by the Public Trustee

- 5.59 We provided a management letter to the acting Public Trustee in December 2014. In prior years and in our May 2012 Report of the Auditor General, we recommended that an accounting system be acquired due to the entity administering over \$45 million in estates and trusts. We have been informed that progress has been made towards implementing this recommendation. We continue to recommend the Public Trustee develop and implement a fully-functioning and comprehensive accounting system.
- 5.60 We recommended the Public Trustee implement the recommendations made in the prior year with respect to the Common and Special Reserve Funds administered by the Public Trustee. The Common Fund acts as a general bank account for clients and is used for disbursements of estates, as required. The Special Reserve Fund is intended to act as insurance to meet deficiencies in the Common Fund. The Common Fund, with a balance of \$3 million as at March 31, 2014, and the Special Fund, at \$2.9 million, are almost equal and therefore we believe the Special Reserve Fund has exceeded its intent as insurance to the Common Fund.

Compliance and controls at the House of Assembly

- 5.61 As a result of our audit of controls over transactions incurred by Members of the House of Assembly, and compliance of those transactions with the House of Assembly Management Commission Act, we provided communications to both the chair of the Commission's Audit Committee, and to Commission management. In the letter to Commission management, we suggested improvements be made to the systems and controls over Commission assets.