

# Chapter 1

## Financial Audit Work

### Key Messages

- Government provided reliable financial statements for 2021-22 within the legislated deadline
- Province received a clean audit opinion on its financial statements for 2021-22
- Significant control weaknesses need to be fixed at two government departments and five government organizations

### Why We Did This Chapter

- To provide insights into the results of the financial audits of the Province and government organizations
- To report on significant control weaknesses identified within government
- To provide updates on important financial matters impacting the Province

### Details Around Key Messages

Government provided reliable audited financial statements for 2021-22 within the legislated deadline of September 30th

- For the 22nd year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
  - The financial statements meet Canadian public sector accounting standards
  - Users can place reliance on the Province's financial statements
  - Although accounting standards have been met, some underlying control weaknesses exist
  - Reported control weaknesses increase the risk of unreliable financial reporting and misuse of assets in the future

Key audit matters reported in the 2021-22 Independent Auditor's Report

- Key audit matters are those matters that were of most significance in the audit and include matters that are complex, have a high degree of uncertainty, or are important to the public
- Key audit matters in 2021-22:
  - Major tax revenues of \$6.1 billion including personal income tax, corporate income tax, and harmonized sales tax account for 44% of the Province's revenues
  - Pension, retirement and other obligations totaled \$2.9 billion and include various employee future benefit plans where responsibility rests with the Province
  - Liabilities for the clean up of contaminated sites including Boat Harbour and abandoned mine sites have grown significantly over the past five years and are now \$454.5 million

Significant control weaknesses at two government departments and five government organizations

- Department of Service Nova Scotia and Internal Services:
  - Six weaknesses in total, all of which have been previously reported
  - Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures
- Department of Natural Resources and Renewables (formerly Lands and Forestry):
  - One weakness; previously reported
  - Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites on Crown lands means there is a risk of unaddressed human health and ecological concerns, as well as being unable to fully understand the potential financial exposure
- Significant control weaknesses identified in the following organizations:
  - Housing Nova Scotia, Nova Scotia Crop and Livestock Insurance Commission, Nova Scotia Education Common Services Bureau, Perennia Food & Agriculture Incorporated, Sherbrooke Restoration Commission
- Significant control weaknesses from prior years not resolved in the following organizations:
  - Housing Nova Scotia, Perennia Food & Agriculture Incorporated, Sherbrooke Restoration Commission



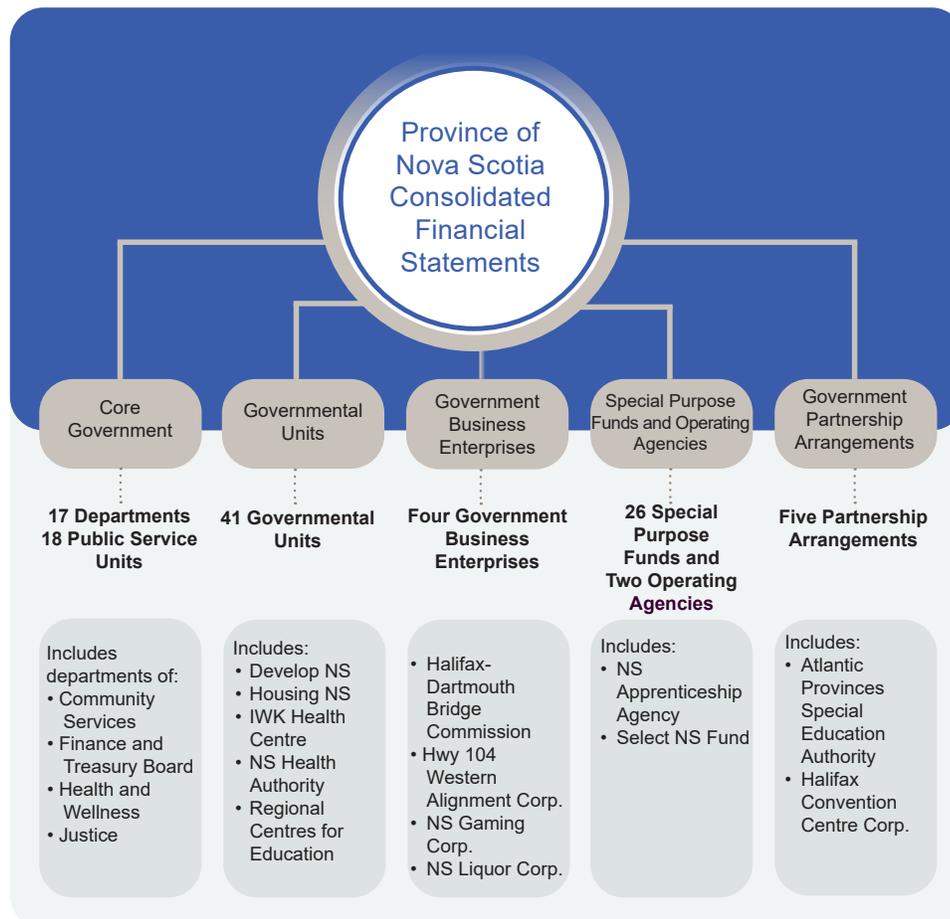
## Questions Nova Scotians May Want to Ask

1. How much will it cost the Province to clean up abandoned mine sites where contamination is expected to exceed an environmental standard?
2. When will the Province know with more certainty the cost to clean up Boat Harbour?
3. Is the Province, as well as Nova Scotians' personal health and other information, safe from a cyber attack?
4. When will the Department of Service Nova Scotia and Internal Services fix the significant weaknesses within purchasing and payment processing that have been outstanding since 2016-17?

# 1 Financial Audit Work

## Reporting on Financial Audit Engagements

- 1.1 The objective of this chapter is to provide information on the results of the financial audit of the Province's Consolidated Financial Statements and of the many organizations that are part of the Province of Nova Scotia, as well as provide updates on cybersecurity and IWK Health Centre financial management.
- 1.2 The Auditor General Act establishes the Auditor General's mandate, responsibilities, and powers. It provides the Office with the mandate to audit all parts of the provincial public sector, which includes government departments and organizations. The Act also stipulates that the Auditor General shall audit the annual Consolidated Financial Statements of the Province.
- 1.3 The Consolidated Financial Statements of the Province present an accumulation of the assets, liabilities, revenues, and expenses of all the activities and organizations under its control. The statements are published annually as part of the Public Accounts. The following diagram provides an overview of the many operations and organizations that are captured in the Consolidated Financial Statements of the Province.



- 1.4 We conduct the audit of the Province's Consolidated Financial Statements, as well as the audits of the financial statements of the Nova Scotia Health Authority (Nova Scotia Health) and the Izaak Walton Killam Health Centre (IWK Health Centre).
- 1.5 For each of these engagements we provide information about the results of our work through communications to those charged with governance and management. The Independent Auditor's Report is attached to the financial statements and includes the audit opinion and other details recommended and required by Canadian auditing standards. We issued unmodified, or "clean" audit opinions on the financial statements of each organization for the year ended March 31, 2022.
- 1.6 We also issue a report to those charged with governance that provides information on our assessment of audit risk, mitigation strategies, and areas of significance we feel are necessary to bring to the attention of the governing bodies. During our audits we have identified observations and control weaknesses we feel management should address to protect the financial reporting of the organization. Those are detailed in a letter to management with recommendations and when implemented often lead to an improved financial environment. This communication to those charged with governance also includes information on new accounting standards that impact the organization.
- 1.7 We had no significant control weaknesses to report to those charged with governance at the Nova Scotia Health Authority or the IWK Health Centre. The IWK Health Centre has made significant progress in recent years to improve their internal control environment and address previously identified recommendations including significant control weaknesses. In 2021-22, upon assessment of a previously reported significant control weakness, we determined it to no longer be significant.
- 1.8 To meet our mandate we rely on private accounting firms to conduct the financial statement audits of many government organizations. As part of the Office's audit of the Consolidated Financial Statements of the Province, we review the results of the financial audit work, including the results provided by private accounting firms for the audits they complete. Appendix I shows how the financial audit results are ultimately reported to the House of Assembly.

### **Government provided Nova Scotians with financial statements they can rely on**

- 1.9 The Province of Nova Scotia received an unmodified opinion on its Consolidated Financial Statements from the Auditor General of Nova Scotia in each of the past 22 years. An unmodified opinion, or what is commonly referred to as a "clean" audit opinion, means that an auditor has no significant concerns regarding the reliability of the information reported in the financial statements. This is an accomplishment that governments over the past 22 years should take pride in. We believe it is reasonable for all Nova Scotians, including elected officials, to expect a clean audit opinion on the Province's Consolidated Financial Statements.
- 1.10 In addition, we would like to highlight that the Province released its annual Public Accounts within the legislative deadline of September 30<sup>th</sup>. These statements showed a surplus of \$351 million. More information on the Province's finances and this year's surplus is provided in Chapter 3.
- 1.11 The Province's Consolidated Financial Statements were prepared in accordance with Canadian public sector accounting standards and we conducted our audit in accordance with Canadian auditing standards. Under these standards, an organization can receive a clean opinion while at the same time have weaknesses in its financial controls. This is because the objective of a financial statement audit is to provide an opinion on whether the financial statements are fairly

presented and are free from material misstatement(s). The clean audit opinion provided indicates we are satisfied that users can place reliance on the numbers and information contained within the Consolidated Financial Statements.

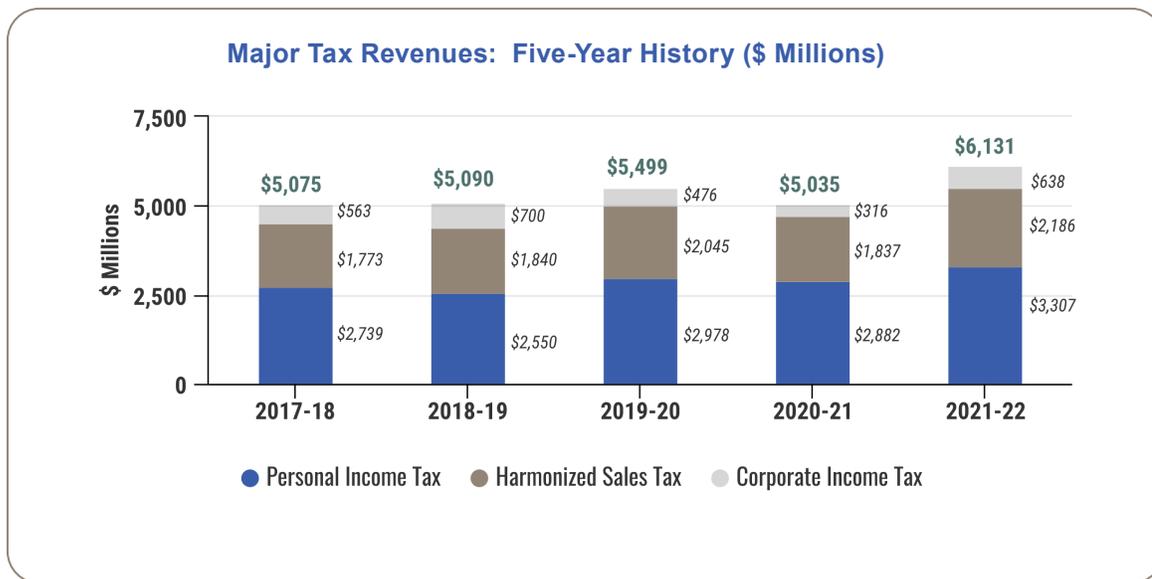
- 1.12 We would like to take this opportunity to express our appreciation to the Government for the cooperation, time, and effort provided to us by management and staff during the audit.

**Key audit matters communicated in auditor’s report provide additional information**

1.13 As auditors of the Province’s Consolidated Financial Statements, we communicate key audit matters to provide greater transparency about our audit and additional insight into how important items were addressed during the audit. Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements. Matters that are complex, have a high degree of uncertainty, or are important to the public are highlighted as key audit matters.

1.14 Below are the key audit matters addressed in the 2021-22 Independent Auditor’s Report of the Province’s Consolidated Financial Statements. The key audit matters were addressed in the context of the Auditor General’s clean audit opinion on the Province’s Consolidated Financial Statements; the Auditor General does not provide a separate opinion on these matters.

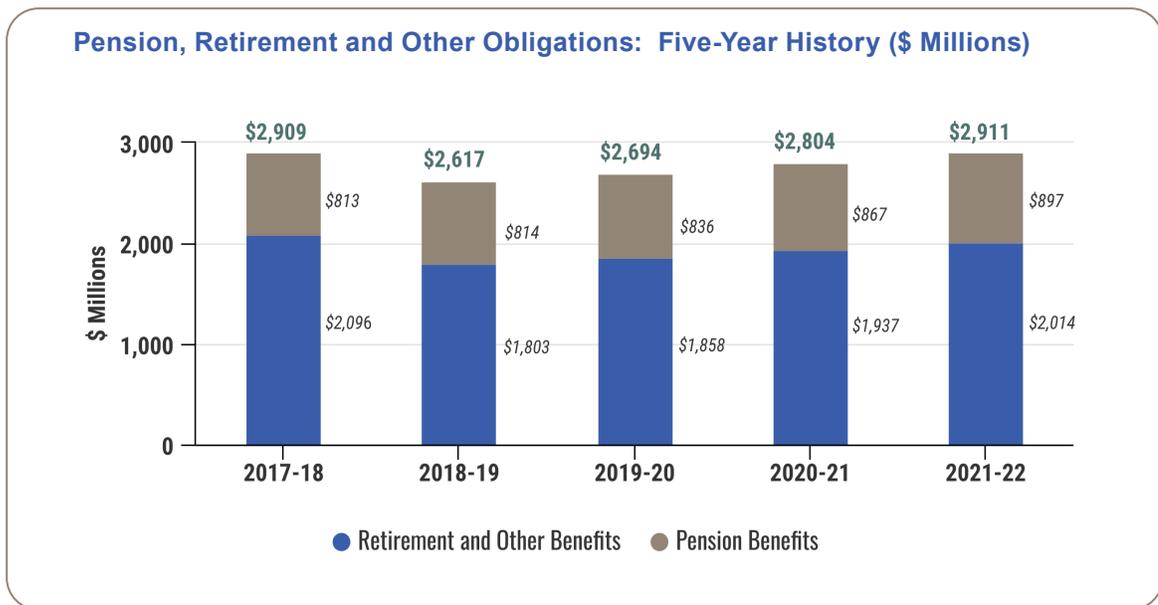
1.15 Major tax revenues, which include personal income tax (PIT), corporate income tax (CIT), and harmonized sales tax (HST) were reported as a key audit matter due to their significance and the degree of uncertainty, as they involve forecasting into the future. The chart below shows major tax revenues for the last five years.



Source: 2021-22 Public Accounts (Independent Auditor’s Report)

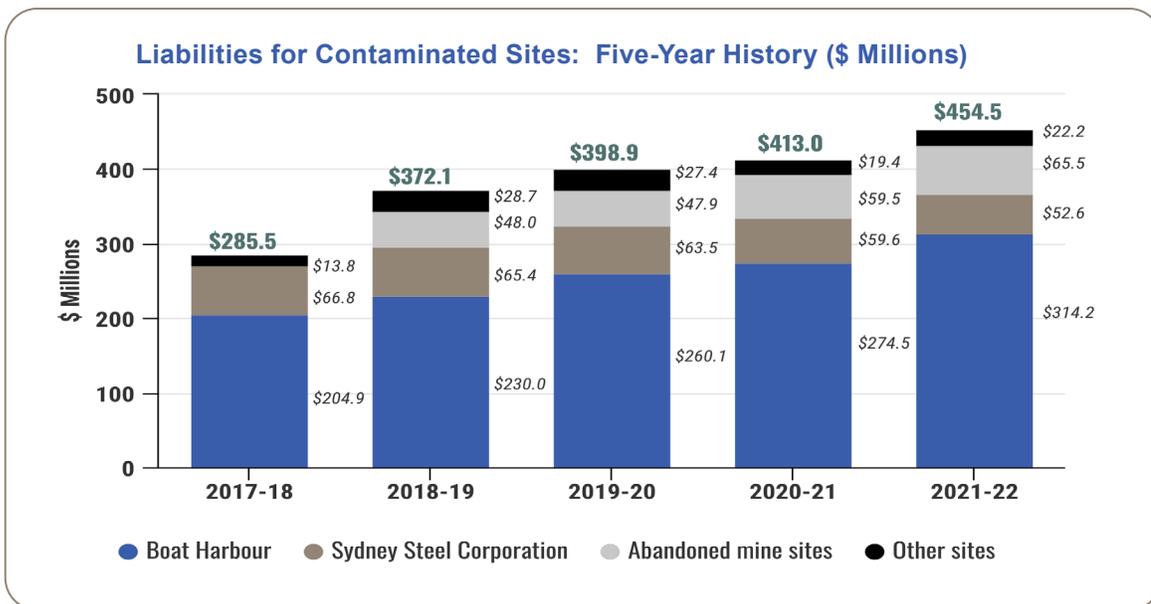
1.16 Since there is a delay in timing regarding when the Province receives actual tax filing data (i.e., once personal tax returns are filed), major tax revenues are calculated based on management’s best estimates. These estimates use complex forecasting models that rely considerably on historical data and trends, including data from the federal government, as well as the Province’s economic forecast. In 2021-22, major tax revenues totaled \$6.1 billion and accounted for 44 per cent of the Province’s total revenues.

- 1.17 We addressed this matter by testing the underlying data the Province inputs into its tax revenue forecasting models and reviewing evidence to support key inputs. Based on our audit work we were able to conclude they were fairly presented in the Province's Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards. More information on the Province's finances and changes in major tax revenues from budget is provided in Chapter 3.
- 1.18 Pension, retirement and other obligations were reported as a key audit matter because the Province's \$2.9 billion liability at March 31, 2022 is significant and is susceptible to uncertainty due to actuarial assumptions that are subject to change in the future. Pension, retirement and other obligations include various employee future benefits where the Province is responsible for the provision of benefits.



Source: 2021-22 Public Accounts (Independent Auditor's Report)

- 1.19 Actuarial assumptions include estimates for the future rate of inflation, future salary increases, retirement ages, life expectancy, and other variables. Calculating liabilities for pension, retirement and other obligations requires the use of actuarial experts.
- 1.20 We addressed this matter by testing the underlying data used in the calculation of the Province's liability for pension, retirement and other obligations and reviewing evidence to support the key long-term assumptions. We also relied on the work of the Province's consulting actuary. We were able to conclude that pension, retirement and other obligations were appropriately presented in the Province's Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards.
- 1.21 Liabilities for contaminated sites are a key audit matter as these liabilities are significant estimates of future costs required to complete the necessary cleanup of contaminated sites falling under the Province's responsibility. At March 31, 2022, liabilities for contaminated sites were estimated at \$454.5 million. The chart below shows the five-year history of the liabilities for contaminated sites. This liability has grown significantly over the past five years driven by increases associated with liabilities for cleaning up Boat Harbour and certain abandoned mine sites.



Source: 2021-22 Public Accounts (Independent Auditor's Report)

- 1.22 A liability of \$48.0 million for abandoned mines was first recorded in 2018-19 when site investigations were completed at two former gold mine sites – Goldenville and Montague. As a result of further environmental investigation and assessment, the liability has grown to \$65.5 million at March 31, 2022 and is likely to continue to grow as additional site investigations are completed.
- 1.23 At March 31, 2022 year end, detailed site assessments were underway for five additional mine sites (three gold, one coal, and one celestite) and government is working its way through a prioritized list of other potentially contaminated sites. There is no liability yet recorded for these additional sites as further testing and evaluation is required to determine the extent of contamination and possible site management options.
- 1.24 We addressed this matter by obtaining a detailed understanding of the method for identifying and evaluating contaminated sites and assessing the reasonability of the cleanup costs for a sample of sites. This included ensuring that:
  - an environmental standard exists
  - contamination had been identified
  - the government is either directly responsible for and/or accepts responsibility for the contamination liability
  - it is reasonable to expect that future economic benefits will be given up
  - a reasonable estimation of these costs can take place

## Significant Control Weaknesses

- 1.25 The presence of significant control weaknesses does not mean that an organization's financial statements are materially misstated. A significant weakness in internal controls is a weakness or combination of weaknesses that are deemed by the auditor to be important enough to be reported to an organization's audit committee or those charged with governance. Even though we reported significant control weaknesses, we were able to address the associated risks through our audit work and provide a clean audit opinion on the Province's 2021-22 Consolidated Financial Statements.
- 1.26 The longer a significant weakness in internal control remains unaddressed, the higher the risk that financial statements could be misstated due to fraud, error, and/or the misuse of assets, both now and in future periods. Internal control weaknesses that remain unaddressed over multiple years can diminish an organization's internal control culture; therefore, significant weaknesses in internal controls should be addressed in a timely manner.

### Significant control weaknesses reported previously at two departments remain unfixed

- 1.27 The table below summarizes the number of significant control weaknesses by government department. Seven significant control weaknesses identified and reported in prior years remain unresolved. Appendix II provides details of each weakness, including its potential impact and management's response.

Government Departments with Significant Control Weaknesses in 2021-22			
Government Department and Nature of Significant Control Weaknesses	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2021-22	Total Outstanding at March 31, 2022
Service Nova Scotia and Internal Services <ul style="list-style-type: none"> <li>Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures</li> </ul>	6	-	6
Natural Resources and Renewables (formerly Lands and Forestry) <ul style="list-style-type: none"> <li>Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites</li> </ul>	1	-	1
<b>Total</b>	<b>7</b>	<b>-</b>	<b>7</b>

- 1.28 As noted in the table above, the Department of Service Nova Scotia and Internal Services (SNS-IS) and the Department of Natural Resources and Renewables (formerly Lands and Forestry) did not fully address their significant control weaknesses reported in prior years.
- 1.29 The Department of Service Nova Scotia and Internal Services had a total of six significant control weaknesses related to purchases and procurement carried forward from prior years, some dating back to fiscal 2016-17. No new significant control weaknesses were identified in the current year, and none were resolved, leaving six significant control weaknesses still outstanding at March 31, 2022. SNS-IS has made progress in the current year by improving purchase and payment processing controls and formalizing policies to address certain significant control weaknesses. However, there is still work to be done to implement these policies to ensure that departmental purchases are authorized, appropriate, and achieve value for money.
- 1.30 The Department of Natural Resources and Renewables' significant weakness was identified in 2018-19. The Department has developed an initial risk-based inventory of potentially contaminated

sites taking into account human health risks, ecological impacts, and potential hazards (chemical and physical). At March 31, 2022 year end, detailed site assessments were underway for five additional mine sites; however, the Department has yet to complete sufficient, detailed site investigations on all sites identified with potential areas of contamination. There continues to be a risk of not identifying unaddressed human health or ecological concerns, as well as not fully understanding the potential financial exposure relating to future remediation and monitoring costs associated with abandoned mine sites.

### Significant control weaknesses reported at five government organizations

- 1.31 Five government organizations included in the Province's 2021-22 Consolidated Financial Statements had significant control weaknesses. Of those five, three had not resolved weaknesses reported in prior years – Housing Nova Scotia, Sherbrooke Restoration Commission, and Perennia Food & Agriculture Incorporated. Housing Nova Scotia had an additional significant control weakness for the year ended March 31, 2022. Two other entities had significant control weaknesses identified as part of March 31, 2022 year end audit work – Nova Scotia Education Common Services Bureau and Nova Scotia Crop and Livestock Insurance Commission.
- 1.32 We note that improvements have been made at some organizations. Four organizations (Canadian Sports Centre Atlantic, Harbourside Commercial Park Inc, Izaak Walton Killam Health Centre, and the Nova Scotia Liquor Corporation) have addressed all significant control weaknesses that were outstanding last year or made enough progress for weaknesses to no longer be deemed significant and did not have new weaknesses for the year ended March 31, 2022. While Sherbrooke Restoration Commission is reporting one unresolved weakness from the prior year, a second previously reported weakness had been addressed, thus, only one significant control weakness was reported at March 31, 2022.
- 1.33 Although some of the organizations noted below are not financially significant to the Province's Consolidated Financial Statements, these control weaknesses are still significant to their own individual operations, mission, and mandate.

Government Organizations with Significant Control Weaknesses in 2021-22				
Government Organization	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2021-22	Plus: Number Identified in 2021-22	Total Outstanding at March 31, 2022
Canadian Sports Centre Atlantic	3	(3)	-	-
Housing Nova Scotia	3	-	1	4
Sherbrooke Restoration Commission	2	(1)	-	1
Perennia Food & Agriculture Incorporated	1	-	-	1
Nova Scotia Education Common Services Bureau	-	-	5	5
Nova Scotia Crop and Livestock Insurance Commission	-	-	1	1
Harbourside Commercial Park Inc.	1	(1)	-	-
Izaak Walton Killam Health Centre	1	(1)	-	-
Nova Scotia Liquor Corporation	1	(1)	-	-
<b>Total</b>	<b>12</b>	<b>(7)</b>	<b>7</b>	<b>12</b>

- 1.34 Appendix III provides details of each weakness, including its potential impact and management's response.

## Other Topics of Interest

### Follow-up on Cybersecurity

#### **Work remains to be done on the Province's cybersecurity risk management programs**

1.35 In each of our annual Financial Reports since 2019 we have highlighted the status of the cybersecurity risk management programs for the Province and certain government organizations. We found that there was a varied understanding of cybersecurity responsibilities and that cybersecurity risk management programs were in various stages of development. The following paragraphs describe the status of those matters as of March 31, 2022 based on inquiries of management at the Department of Service Nova Scotia and Internal Services and Nova Scotia Health. We did not audit or verify the accuracy of management's responses and do not provide assurance on management's comments.

#### **Service Nova Scotia and Internal Services has not updated its cybersecurity policy**

1.36 In 2019 we reported that regulations under the Shared Services Act of 2014 needed to be developed to define what shared services are to be provided; what departments, crown corporations, and government organizations are to receive those shared services, and which are not; as well as terms and conditions for providing the services.

1.37 The organizational structure and cyber-related responsibilities of SNS-IS have changed as a result of mergers and the creation of the Nova Scotia Digital Services branch. Management informed us that to deliver the required services, it has focused on establishing a partnership-based delivery model and is exploring governance models that will be sustainable as service offerings evolve.

1.38 In 2021 we reported that the Department of Service Nova Scotia and Internal Services had reviewed its cybersecurity environment and had planned to update the cybersecurity policy in government's Corporate Administrative Policy Manual in the spring of 2022. Management indicated the updated policy was expected to be published in the manual by September 2022 in the Common Services section. Upon review of the manual in October 2022, it was noted that the policy was still not updated.

1.39 Through its work on establishing partnership-based delivery models, management has determined that the regulations supporting the Shared Services Act are not necessary. We encourage the Department to work toward finalizing and implementing the policy within its stated timeframe. We also suggest the Department regularly assess the effectiveness of the partnership-based delivery model and the updated policy to ensure it continues to provide the necessary guidance to the entities it serves.

#### **Service Nova Scotia and Internal Services continues to expand the government-wide cybersecurity risk register**

1.40 Last year we reported that in addition to assessing cybersecurity threat risks and building mitigation strategies for all new systems, SNS-IS had started to include older systems for which no risk assessment had been performed previously. This year SNS-IS informed us that it has incorporated identifying existing key enterprise systems that require cybersecurity threat risk assessments as part of ongoing business practices.

## **Cybersecurity training programs are still in development**

- 1.41 A key activity for managing cybersecurity risks is establishing processes for awareness and training. Providing cybersecurity awareness and training enhances the security environment and enables users to better understand their roles and responsibilities.
- 1.42 In prior years we reported that SNS-IS indicated it makes users aware of cybersecurity risks; however, it did not have a government-wide training program for all IT users. Mandatory training on cybersecurity was limited to only some employees. A new mandatory Cyber Awareness Training curriculum was expected to be procured in December of 2021, with training being rolled out in phases six to nine months following the vendor selection.
- 1.43 This year when we asked SNS-IS management about a province-wide training and awareness strategy for cybersecurity, they indicated that the training courseware has been procured and implementation efforts are in progress. The first phase was rolled out in September 2022 to SNS-IS's Nova Scotia Digital Services team. A second phase is expected to be rolled out in the winter of 2022-23 for all of government.
- 1.44 Every user of the Province's network needs to understand the potential cyberthreats and the cybersecurity policies put in place to protect against those risks. Training and awareness should be provided on a timely basis and updated as necessary to remain current.

## **Nova Scotia Health continues to move forward in developing a cybersecurity program**

- 1.45 All government departments and organizations that own data, applications, servers, or manage networks have responsibilities and roles in relation to cybersecurity regardless of the services received from SNS-IS or other service providers.
- 1.46 In our December 2021 Financial Report we reported that Nova Scotia Health had started to implement a cybersecurity governance and operating model using a roadmap provided by an external consultant. Management indicated that it planned to establish an internal cybersecurity team as noted in the roadmap that could address the other recommended initiatives.
- 1.47 Since our 2021 Financial Report, Nova Scotia Health has created an internal cybersecurity team. Additionally, management has indicated that the Cyber Incident Readiness Response process has been developed and reviewed and it has launched a cyber awareness learning module. A multi-year plan to implement the other recommended components of the cybersecurity program was developed and Nova Scotia Health indicated that implementation of this plan will continue into 2023 and beyond.

## **Follow-up on IWK Health Centre Financial Management**

### **Improvements in financial management made at the IWK Health Centre**

- 1.48 As part of the December 2018 performance audit on IWK Health Centre's financial management controls and governance, our Office identified opportunities to enhance the IWK Health Centre's internal controls and financial reporting. Since then, the IWK Health Centre has made significant organization-wide progress within its control environment addressing most of these recommendations. During our 2021-22 financial statement audit engagement, we assessed the progress management made on the remaining two recommendations and found that significant progress had been made and that the IWK Health Centre is tracking appropriately for completion on both. The recommendations were as follows:

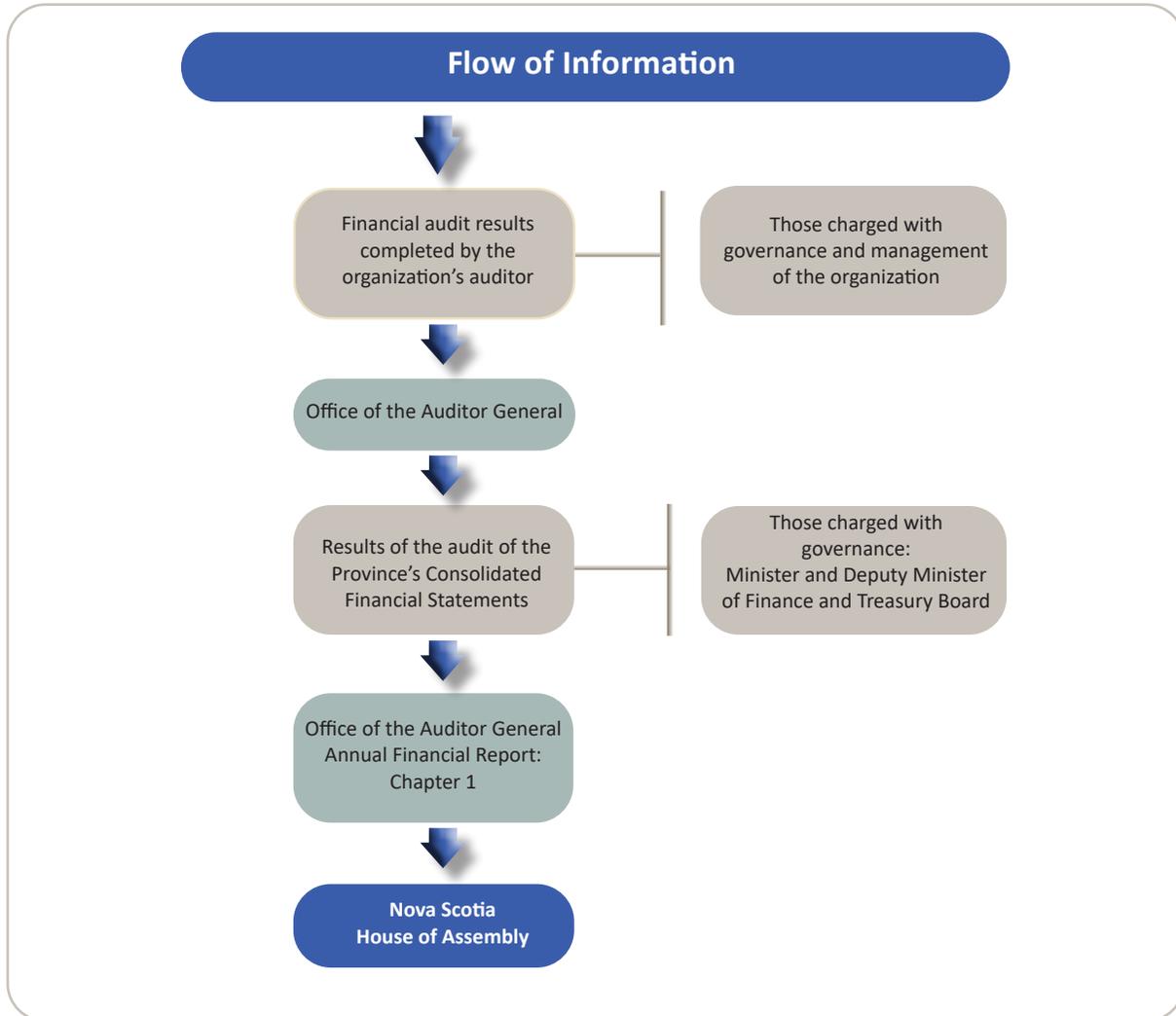
- The IWK Health Centre should complete a risk-based evaluation of its internal controls. Management should design, document, and implement appropriate internal controls and monitor to ensure the controls are operating effectively on a regular basis.
- The IWK Health Centre Board of Directors should oversee the development and implementation of internal controls and receive regular reporting on the effectiveness of internal controls.

1.49 In 2021-22 a comprehensive internal controls program and strategy was developed. It includes a risk-based approach for the documentation, monitoring, and assessment of internal controls design and operating effectiveness. A formal internal controls team and internal audit group were established to support this program and the development and implementation of internal controls. The internal controls team has developed an Internal Control over Financial Reporting (ICFR) Annual Plan which has been approved by management and presented to the Finance, Audit & Risk Management Committee.

1.50 The ICFR plan is a formalized approach for the achievement of key internal control objectives. It includes a roadmap that provides a timeline to document controls, evaluate control design, and monitor controls. Findings will be reported annually to the Finance, Audit & Risk Management Committee. The IWK Health Centre is on track to complete the implementation of the plan and resolve both recommendations by the end of fiscal 2022-23.

## Reporting on Financial Audits

The results of the individual financial audits of government organizations are reported to their respective management teams and those charged with governance. The Office also uses this information to conduct the audit of the Province’s Consolidated Financial Statements and in the Office’s annual financial report to the House of Assembly



## Summary of Significant Control Weaknesses – Government Departments

Department of Service Nova Scotia and Internal Services	
Significant Control Weakness	Potential Impact
1. Need for improved implementation, monitoring, and reporting of internal control procedures for the payments process.	Internal controls may not be operating effectively on a regular basis; inappropriate or unauthorized purchases and/or payments may be made.
2. No formal, written policies or procedures exist for the review and processing of vendor master file changes.	Unauthorized or inappropriate changes may be made to the vendor master file; payments may be issued to inappropriate vendors.
3. Lack of detailed procedures, incorporating internal controls, for the procurement process.	Inappropriate or unauthorized purchases may be made.
4. Procurement technicians create and issue purchase orders after goods and/ or services have been received.	Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services.
5. The policy requirement, <i>“If a public sector entity anticipates making multiple purchases of the same requirement, the total value of all anticipated purchases must be used to determine the appropriate procurement process,”</i> is not being followed.	Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services.
6. No documentation to show that the requesting department has received goods and/or services.	Payments may be made for goods and/or services that have not been received.
<p><b>Management’s response (unaudited)</b>            SNS-IS is committed to addressing all control weaknesses identified to support safeguarding of the Province’s assets.</p> <p>Operational Accounting is currently implementing the digitized signing authority tool across all departments to validate appropriate approvals on financial transactions. The Purchase Order Policy is anticipated to be added to government’s Corporate Administrative Policy Manual in the Winter 2023. The Vendor Management Policy is under review and will be updated to include the new process.</p> <p>Procurement Services has established the Procurement Control Excellence Program to deliver on the identified recommendations and reinforce the principles of the Nova Scotia Sustainable Procurement Policy. The program is anticipated to roll out in 2023-24. It has also established a Standard Operating Procedures (SOP) Committee. All SOPs will be circulated by end of 2022-23.</p> <p>Operational Accounting and Procurement Services internal and client SharePoint sites are monitored and updated with necessary changes to process documentation. They both continue to collaborate on interrelated matters regarding procurement.</p>	

Department of Natural Resources and Renewables (formerly Lands and Forestry)	
Significant Control Weakness	Potential Impact
1. Sufficient site investigations and detailed environmental tests on all abandoned mine sites have not been completed.	<p>The Province is unable to effectively assess its financial exposure relating to potential future remediation and monitoring costs associated with abandoned mine sites.</p> <p>There is a risk that potential contamination is not identified or managed, resulting in unaddressed human health or ecological concerns.</p>
<p><b>Management’s response (unaudited)</b>            Natural Resources and Renewables agrees with the findings. The Department will continue to work systematically on mine site evaluations, taking into account a number of factors including risk and site accessibility.</p>	

## Summary of Significant Control Weaknesses – Government Organizations

Housing Nova Scotia	
Significant Control Weakness	Potential Impact
1. Lack of controls relating to user accounts and password expiry.	Increased risk of unauthorized access to information and financial errors.
2. Lack of user access controls for administrators in the production ICM database.	Increased risk of unapproved data changes or fraudulent activity going undetected.
3. Lack of user access controls for developers in the production environment.	Increased risk of unapproved data changes or fraudulent activity going undetected.
4. Lack of current and/or signed Rent Supplement Agreements with landlords.	Increased exposure to liability as the landlords do not have current contracts to provide programs as intended.
<p><b>Management's Response (unaudited)</b>  Housing Nova Scotia (HNS), as part of the Department of Municipal Affairs and Housing (DMAH), has shared the observations (items 1 through 3) with the Department of Service Nova Scotia and Internal Services (SNS-IS). SNS-IS has implemented practices to mitigate the control weaknesses noted. Specifically:</p> <ol style="list-style-type: none"> <li>1. This recommendation has a government-wide impact that affects all Province of Nova Scotia users. SNS-IS is responsible for maintaining and implementing network security controls and has recently implemented an updated Credential Standard (based on industry best practices) to make passwords easier to use and more secure.</li> <li>2. Although shared administrator accounts will continue to be used, account permissions do not allow developers to make database schema changes and a configuration management process with verification and approval steps must be followed to deploy data fixes to production. Furthermore, an audit function for tracking shared administrator accounts has been added.</li> <li>3. Access provided for developers is limited. A configuration management process and a source code management tool are being used to ensure that developers cannot promote changes to production without additional approvals. Approval and verification steps are required to promote changes between development, testing, and production environments.</li> <li>4. All Rent Supplement Agreements with landlords are current and/or signed.</li> </ol>	
Sherbrooke Restoration Commission	
Significant Control Weakness	Potential Impact
1. Journal entries are not approved in a timely manner.	Increased risk of errors or inappropriate transactions going undetected.
<p><b>Management's Response (unaudited)</b>  Journal entries are approved on a weekly basis by a Director or Commission Member with signing authority before being posted, and approved again before payment.</p>	

## Summary of Significant Control Weaknesses – Government Organizations

Perennia Food & Agriculture Inc.	
Significant Control Weakness	Potential Impact
1. Duties within the financial reporting process are not adequately segregated.	Increased risk of errors, fraud, and inappropriate or unauthorized payments being made and going undetected.
<p><b>Management's Response (unaudited)</b></p> <ul style="list-style-type: none"> <li>Hiring a third finance position (Accounting Clerk) by end of 2022-23 to further ensure segregation of duties</li> <li>Supplier statement reconciliations</li> <li>All outgoing payments require two signatures</li> <li>Purchases are authorized as per Perennia's procurement policy</li> <li>Management review of master data setup and changes</li> <li>Weekly review of journal postings from the following subsidiary ledgers: vendor payments journal, vendor invoice journal, customer payments journal, customer invoice journal, general journal</li> </ul> <p>Monthly management review of financial results, distribution to and meeting with Board Finance Committee until Perennia becomes a Crown Corporation and the Board transitions to an Advisory Board.</p>	

Nova Scotia Education Common Services Bureau	
Significant Control Weakness	Potential Impact
1. Lack of segregation of duties within the payroll and accounts payable functions.	Increased risk of fraud or error in payroll and operating expenses.
2. Bank reconciliations are not being performed on a monthly basis.	Increased risk for misappropriation of funds.
3. Lack of segregation of duties related to the receiving and recording of cash.	Increased risk of misappropriation, fraud or error.
4. Inadequate journal entry review process.	Increased risk of inappropriate or unauthorized journal entries being recorded and going undetected.
5. Inappropriate employees are listed as signing authorities on the general banking agreement. No distinction between NSECSB and Computers for Schools bank accounts.	Increased risk of fraud and misappropriation of cash.
<p><b>Management's Response (unaudited)</b></p> <p>The Nova Scotia Education Common Services Bureau (NSECSB) is a small but rapidly growing organization. Some of these comments can be attributed to the timing of the audit and the loss of a staff person who supported the finance function. Since the audit, the NSECSB has backfilled the position and restored internal controls providing for an appropriate segregation of duties within the payroll and accounts payable functions, duties related to the receiving and recording deposits, and the journal entry review process. The position is also responsible for the monthly bank reconciliations. For clarity, the Computer for Schools bank account is separate from the NSECSB account and access to the Computer for Schools account is limited to two NSECSB staff members. Any cheque issued by Computer for Schools requires two signatures.</p>	



## Summary of Significant Control Weaknesses – Government Organizations

Nova Scotia Crop and Livestock Insurance Commission	
Significant Control Weakness	Potential Impact
1. Duties within the financial reporting process are not adequately segregated.	Increased risk of fraud or error in payroll and operating expenses.
<p><b>Management’s Response (unaudited)</b></p> <p>We agree with segregation of duties as a best practice. We note that payroll and all non-fund related operating expenses are recorded within the Province’s SAP system and follow provincial policies, and as such, duties are appropriately segregated. The only portion of the financial reporting process that does not have full segregation of duties is recording the fund balances into a separate fund accounting system. There are existing compensating controls in place to protect the Commission which include the entries into the fund accounting system being prepared by a data analyst and calculated through an independent crop insurance database, monthly reconciliations and approvals between the fund accounting system and the crop database, as well as all bank accounts and financial statements. The finance officer does not have any ability to initiate or receive any payments into or out of the fund.</p> <p>Previous annual audits including the 2020/21 audit where the same financial processes were in place did not identify segregation of duties as a significant control issue. The Commission is committed to reviewing the process for recording of fund balances by December 31, 2022 and implementing additional mitigating controls (ie. additional oversight).</p>	