



# At a Glance



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## 6 Review of Audit Opinions and Management Letters

### Summary

As part of their communication of audit results, auditors provide significant information on internal control-related issues they identified during the audit. This communication is provided to management and those charged with governance, such as boards of directors. Each year, we conduct a review of these communications by private sector auditors under section 23 of the Auditor General Act and report matters of interest. Comments and observations from the 2014 financial statement audits conducted by our Office are noted in chapter 5 of this report.

We are pleased to report an overall improvement in the results of our review of independent auditors' reports, as the number of qualified audit opinions has reduced. Qualified audit opinions were issued on the 2013-14 financial statements for six agencies, down from the prior year in which ten agencies were issued qualified opinions. The significant improvement is due to unqualified opinions at five school boards; these entities received qualified opinions in the prior year due to the inability to verify completeness of certain revenues.

A total of 86 internal control-related issues were identified, only 41 of which were identified and reported in 2013-14 for the first time. The overall number of internal control-related issues identified decreased 10% from 2012-13. Despite a decrease in new internal control issues, the number of deficiencies that remain outstanding from one year to the next in several agencies is increasing. As we have reported previously, responsibility for addressing the issues reported in communication of audit results rests with management of these entities.

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# 6 Review of Audit Opinions and Management Letters

## Background

- 6.1 The Office of the Auditor General is the legislated auditor for the following entities.
- The Province of Nova Scotia
  - Nova Scotia Crop and Livestock Insurance Commission
  - Nova Scotia Legal Aid Commission
  - Nova Scotia Provincial Lotteries and Casino Corporation
  - Nova Scotia Public Trustee
- 6.2 The financial statement audits of the remaining crown corporations, agencies, funds, and trusts administered by the province, are generally conducted by private sector auditors.
- 6.3 Section 23 of the Auditor General Act permits our Office to conduct additional reviews of those agencies in which financial statement audits are conducted by private sector auditors. Although we have not considered it necessary to conduct additional reviews of the work performed by these auditors, we have reviewed their audit opinions and audit communications. This chapter summarizes the issues those auditors identified.
- 6.4 Comments and observations from the audits of the 2014 financial statements conducted by our Office, including the audit of the consolidated financial statements of the province, are noted in chapter 5 of this report.

## Chapter Objective

- 6.5 The objective of this review of the independent auditors' reports and communications of audit results is to identify matters of interest to the users of public sector financial statements, which have been reported to management and boards.



## Independent Auditors' Reports

### Results of Review

#### Conclusions and summary of observations

We are pleased to report an overall reduction in the number of qualified audit opinions issued by independent auditors of public sector entities. Qualified audit opinions were issued on the 2013-14 financial statements for six agencies, compared to ten agencies in the prior year. The significant improvement is due to unqualified opinions at five school boards; these had previously received qualified opinions due to their auditors' inability to verify completeness of certain revenues. We also noted that two entities which had not been following public sector accounting standards, in accordance with government policy, have now adopted these standards.

6.6 *Background* – The objective of an audit is to form an opinion on whether financial statements present fairly, in all material respects, the financial position of the entity at its fiscal year end, and the results of its operations for the year then ended, in accordance with Canadian generally accepted accounting principles. This includes accounting principles issued for the public sector. Where there are qualified audit opinions, or situations in which it is not possible to render an opinion, we believe it is appropriate to report on such matters.

▶ All school boards received unqualified audit opinions on their financial statements

6.7 *Qualified audit opinions* – Last year, we reported that five of the school boards received a qualified audit opinion because their auditors were unable to attest to the completeness of revenues related to school-based funds. On their March 31, 2014 financial statements, all school boards received unqualified audit opinions. The auditors of several of the boards continue to make recommendations for improvements to internal controls over school-based funds.

6.8 As noted in chapter 7, we made a recommendation in January 2012 to the Department of Education and Early Childhood Development to work with the school boards to implement their auditors' recommendations and develop the appropriate controls to ensure the accuracy, completeness and safeguarding of school-based funds revenue. The unqualified audit opinions indicate this recommendation has been completed.

6.9 As was the case with the school boards, qualifications can arise due to an inability to audit the completeness of revenue, including revenue from donations or other contributions. The following two entities continue to receive a qualified opinion on the completeness of their revenue.



- Art Gallery of Nova Scotia
  - Nova Scotia Primary Forest Products Marketing Board
- 6.10 Qualified audit opinions can also result from insufficient evidence to support financial statement balances or disclosures, as well as departures from generally accepted accounting principles. Qualified audit opinions were issued by the auditors of the following entities, and are consistent with the qualifications issued in the prior year.
- 6.11 *Harbourside Commercial Park Incorporated* – Harbourside Commercial Park Incorporated’s financial statements are prepared on a non-consolidated basis. Under generally accepted accounting principles, the results of its wholly-owned subsidiary, Sydney Utilities Limited, should be consolidated with those of Harbourside. Instead, the investment in Sydney Utilities Limited is recorded at cost in Harbourside’s financial statements
- 6.12 *Nova Scotia E911 Cost Recovery Fund* – The completeness of expenses was not subject to satisfactory audit verification.
- 6.13 *Nova Scotia Power Finance Corporation* – The entity was not able to provide all required disclosure items related to financial instruments.
- 6.14 *Atlantic Provinces Special Education Authority* – The March 31, 2014 financial statements were issued subsequent to the Public Accounts. The financial statements were qualified because the liability for compensated sick leave had not been recorded. The information required to calculate this liability was not available at the date of the audit report. The March 31, 2013 financial statements for Atlantic Provinces Special Education Authority, which were not issued until March 10, 2014, were also qualified due to this liability not being recorded. The communication of audit results was not available for Atlantic Provinces Special Education Authority when this chapter was written.
- 6.15 The March 31, 2014 financial statements and communications of audit results for 3052155 Nova Scotia Limited were not available when this chapter was written.
- 6.16 *Accounting framework for government not-for-profit entities* – It is the province’s policy that government not-for-profit organizations apply public sector accounting standards. In the prior year, we noted two not-for-profit organizations – Gambling Awareness Foundation of Nova Scotia, and Nova Scotia Health Research Foundation – were not complying with this policy. In the current year, both entities have adopted public sector accounting standards in compliance with government policy.



## Communications of Audit Results

### Results of Review

#### Conclusions and summary of observations

Responsibility for addressing the issues reported in communication of audit results rests with management. The number of reported deficiencies that remains outstanding from one year to the next in several agencies is increasing. Last year, we recommended that the Department of Finance and Treasury Board consider establishing a process to determine entities' implementation progress. We will follow up on the implementation status of this recommendation next year. The overall number of internal control-related issues identified decreased by 10% from 2012-13. A total of 86 internal control-related issues were identified, 41 of which were identified and reported in 2013-14 for the first time.

- 6.17 *Background* – Auditors are required to communicate significant deficiencies in internal control identified during financial statement audits to individuals in entities who are charged with governance. In government agencies, governance is typically provided by an independent board or other oversight body. Auditors are also responsible to report significant difficulties encountered during the audit and other matters that are significant to the oversight of financial reporting. These audit results are typically communicated in documents presented to, and discussed with, management and boards.
- 6.18 *Overall results* – Audits were completed for 70 of the 71 government agencies during the past year; the remaining entity received a review engagement. Four of those agencies are audited by our Office and the results of those audits are discussed in chapter 5.
- 6.19 We contacted the auditors and reviewer of the remaining 67 entities. At the time we wrote this chapter, the auditors of two entities – 3052155 Nova Scotia Limited and the Atlantic Provinces Special Education Authority – had not responded to our request for their audit communication.
- 6.20 Auditors for 35 of the remaining 65 entities identified deficiencies in financial reporting, internal controls and other matters, and reported these to management. There were no matters to report for the remaining 30 entities.
- 6.21 The following table illustrates the number of issues found in the communications of audit results, along with those reported in prior year.

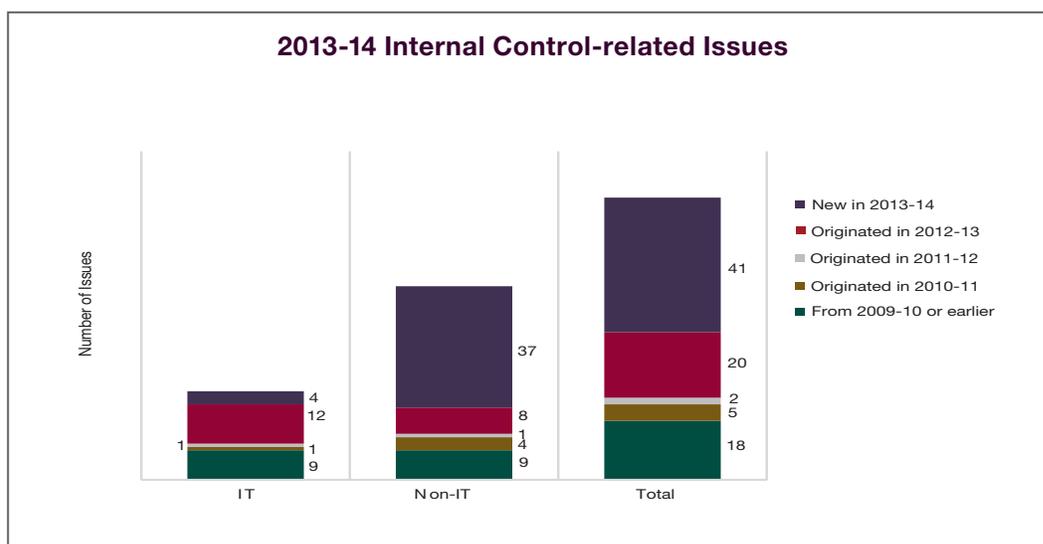
Number of Government Entities with:	2012-13	2013-14
Five or more reported deficiencies	9	7
One to four reported deficiencies	28	28



► The number of deficiencies that remain outstanding from one year to the next in several agencies is increasing

6.22 *Outstanding deficiencies* – We have previously reported our concern with the number of recommendations that are not addressed and continue to be reported. Responding to issues identified by auditors is the audited entity’s responsibility. The number of issues that remain outstanding from one year to the next in several agencies is increasing.

6.23 Internal control deficiencies are of particular concern, as poor internal controls, including those related to IT operations, can hinder the ability of an entity to achieve its objectives. The following chart shows when the issues reported this year were originally identified and reported by the entity auditors. 52% of the issues were originally identified and reported by entity auditors in prior years, with 40% of those reported as far back as 2009-10.



6.24 We are particularly concerned with the number of internal control-related issues that remain outstanding. In 2013-14, 86 internal control issues were identified in 31 of the 35 entities with reported deficiencies. 52% of these issues had been reported before, some as early as 2009-10. Overall, in 2012-13, there were 30 internal control-related issues that originated in prior years. This increased to 45 in 2013-14.

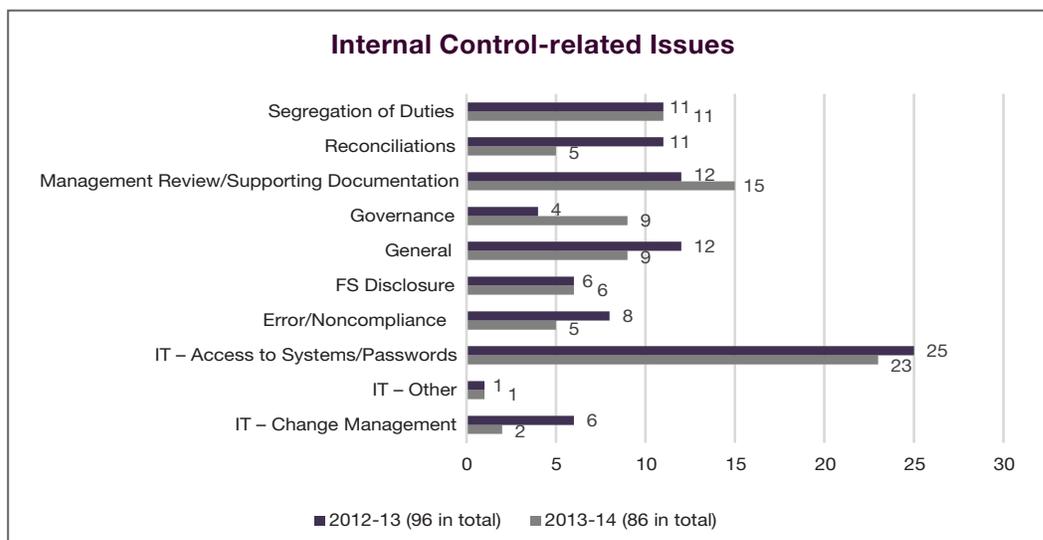
6.25 In addition, the following paragraphs identify four entities in which findings and recommendations have not been addressed year over year.

6.26 Cape Breton District Health Authority’s auditors reported nine of the same issues in the prior year, and seven of these date back to at least 2009-10. Six of these seven issues relate to information technology deficiencies, including inappropriate access rights and change management controls. One deficiency relates to the need for management to review a one-time vendor account to ensure amounts



paid are to valid suppliers. The number of times these deficiencies have been reported indicates that the Authority's auditor considers them to be important.

- 6.27 Housing Nova Scotia's auditors repeated seven recommendations. Five of these related to IT deficiencies, including system access and monitoring issues. The auditors of Housing Nova Scotia continued to note that business users have administrative-level access to the mortgage management information system. As well, password controls may not be sufficient to restrict unauthorized access, and access privileges to a financial application are not reviewed on a regular basis to ensure access is appropriate. The remaining deficiencies related to financial reporting and internal control matters.
- 6.28 Pictou County Health Authority had six issues repeated from the prior year. These included concerns with information system access controls that go back as far as 2009-10.
- 6.29 Colchester East Hants Health Authority's auditors reported six of the same issues as in the prior year.
- 6.30 *Responsibility for addressing issues identified by auditors* – Management has the responsibility to address issues identified by their auditors and report progress of such to their boards or other governing bodies.
- 6.31 In chapter 5, we note government's response following recommendations made as a result of our audit of government's financial statements, as well as their plans for implementing the recommendations. We conduct follow-up on these recommendations after two years.
- 6.32 There is no similar process for reporting on the status of recommendations made to government agencies by their auditors or for the smaller entities audited by our Office. We have not determined if management of these entities have such a reporting process. With the number of internal control-related issues and the fact that some are repeated year after year, there should be a process to hold those entities to account for addressing issues reported by their auditors.
- 6.33 Last year, we recommended that the Department of Finance and Treasury Board communicate with boards of government entities that these deficiencies be addressed on a timely basis. This would likely involve coordination with the departments to which individual entities report. We will follow up on the status of implementing this recommendation next year.
- 6.34 *Internal control-related issues* – In their communications of audit results, auditors reported issues with internal control-related systems or procedures, including those related to IT systems. Approximately one-third of the internal control-related issues were specific to IT. The following exhibit compares 2013-14 and 2012-13 internal control-related issues by theme.



► Internal control-related issues identified decreased 10% from 2012-13

6.35 Despite the concerns we have with the number of issues outstanding from year to year, the overall number of internal control-related issues identified decreased 10% from 2012-13. Eighty-six internal control-related issues were identified, only 41 of which were identified and reported in 2013-14 for the first time.

6.36 The decrease is substantially attributed to a decrease in reconciliation issues, IT change management, general control deficiencies, and error or noncompliance issues. Reconciliations are an important part of internal control as these identify discrepancies between accounting records and supporting documentation. Errors or noncompliance issues can be attributed to data entry errors or noncompliance with policy.

6.37 There were no issues reported by the auditors of the following entities.

- Acadia University Foundation
- Archival Ancillary and Trust Funds of the Public Archives
- Art Gallery of Nova Scotia
- Cape Breton University Foundation
- Capital Health
- Council of Atlantic Premiers
- Dalhousie University Foundation
- Film and Creative Industries Nova Scotia
- Gambling Awareness Foundation of Nova Scotia



- Halifax Dartmouth Bridge Commission
- Highway 104 Western Alignment Corporation
- Members' Retiring Allowances Act
- Nova Scotia Business Inc.
- Nova Scotia Community College
- Nova Scotia Community College Foundation
- Nova Scotia Credit Union Deposit Insurance Corporation
- Nova Scotia Health Research Foundation
- Nova Scotia Municipal Finance Corporation
- Nova Scotia Power Finance Corporation
- Nova Scotia Primary Forest Products Marketing Board
- Nova Scotia School Boards Association
- Nova Scotia School Insurance Program
- Nova Scotia Strategic Opportunities Fund Incorporated
- Nova Scotia Utility and Review Board
- Provincial Drug Distribution Program
- St. Francis Xavier University Foundation
- Sydney Steel Corporation
- Sydney Steel Superannuation Plan
- Sydney Utilities Limited
- Waterfront Development Corporation Limited