



Chapter 3: Results of Audits in the Government Reporting Entity

Why we did this work:

- To summarize matters reported to management and boards
- There are about 100 entities outside of core government
- These 100 entities account for about 40% of government's annual expenses
- Health authorities, IWK Health Centre, school boards, Housing Nova Scotia, Nova Scotia Community College, and Nova Scotia Liquor Commission are significant entities

Overall comments:

- Nova Scotians can be confident that the majority of entity financial statements were fairly stated
- Qualified opinions were rare and not concerning given nature of entities
- Too many government entities are not promptly addressing weaknesses
- The Department of Finance and Treasury Board should hold government entities accountable to correct weaknesses in a timely manner
- We made one recommendation

What we found:

- Qualified audit opinions were few, consistent with prior years, and in line with expectations
- Seventeen control weaknesses were new
- Thirty-six control weaknesses were repeated from prior years with 40% of these dating back to 2009-10
- Three DHAs (Cape Breton, Colchester, and Pictou) and Housing Nova Scotia have many deficiencies outstanding for years
- Provincial IT issues impact other organizations using same systems
- Controls over \$41 million in school-based funds continue to be deficient
- Two DHA's expense budgets are inaccurate as province will not allow DHAs to budget for deficits
- Gambling Awareness Foundation of Nova Scotia received \$1.2 million from gaming profits to be used to fund gaming-related research but granted \$0.2 million



3 Results of Audits in the Government Reporting Entity

Background

- 3.1 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
- 3.2 Our Office also conducts an annual audit under section 22 of the House of Assembly Management Commission Act. The purpose of this audit, the results of which must be reported by November 30 each year, is to express opinions on:
- whether expenses incurred by the Assembly are in accordance with the policies of the Commission and, where applicable, the policies of the public service of the Province; 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.
- 3.3 In addition, we will also be performing the annual audit of the newly-formed Nova Scotia Health Authority. This audit, conducted under section 23(1) of the Auditor General Act, will be undertaken for the first time for the year ended March 31, 2016. The planning phase of the health authority audit is near completion and transaction testing will begin shortly.
- 3.4 We issue a letter to management or to the chair of the board or audit committee (if applicable) in each of the entities we audit. The letter 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 on the implementation status of these recommendations during the subsequent year's audit.
- 3.5 Under section 23 of the Auditor General Act, we also review the audit opinions and related management letters issued by private sector auditors for entities within the government reporting entity, and report matters of interest in this chapter. These management letters provide details on internal control-related issues and other matters. We consider those results, as well



as the audit results from the four government entities that we examine, when auditing the consolidated financial statements of the province.

- 3.6 In prior years, our Office reviewed and reported on the audit opinions and communications of all entities in the government reporting entity audited by private sector auditors and provided statistics on the deficiencies reported. This year we reviewed and reported on all entities audited, but show current year statistics only for the more significant entities within the government reporting entity. The more significant entities were singled out as they are more financially significant to the government reporting entity, or have significant operations, and audit findings may identify risk areas to the consolidated results.
- 3.7 For the year ended March 31, 2015, the more significant entities audited by private sector auditors include the health authorities, regional school boards, and certain other entities. Specifically, they are:
- nine district health authorities and the IWK Health Centre
 - seven regional school boards and the Conseil scolaire acadien provincial
 - Housing Nova Scotia
 - Nova Scotia Community College
 - Nova Scotia Liquor Corporation
- 3.8 With the amalgamation of the nine district health authorities into the Nova Scotia Health Authority as of April 1, 2015, future reporting of results in the health sector will include the Nova Scotia Health Authority and the IWK.

Chapter Objectives

- 3.9 The objectives of this chapter are to provide summary comments on the results of audits conducted by our Office, and identify matters of interest which have been reported by private sector auditors to management and boards of directors.



Significant Observations

Audits of Government Entities Conducted by the Auditor General

Conclusions and summary of observations

We issued unqualified audit opinions for three of the four audits we conducted in government entities for the year ended March 31, 2015. Our audit opinion on Trust Funds Administered by the Public Trustee was qualified again this year 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. In addition, our report on the audit of the Nova Scotia Provincial Lotteries and Casino Corporation, while unqualified, included a paragraph to highlight for users of the statements the outstanding issue of the Corporation appealing taxes related to certain video lottery revenues. Both the Nova Scotia Crop and Livestock Insurance Commission and the Nova Scotia Provincial Lotteries and Casino Corporation implemented recommendations resulting from the March 31, 2014 audits. There were no new recommendations resulting from the March 31, 2015 audits of these entities. We acknowledge Nova Scotia Legal Aid Commission's positive step towards monitoring of the control environment. However, we have again recommended that a review process to monitor operating effectiveness of controls be established. We recommended that the Public Trustee put in place an accounting system to support the administration of the \$55 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. A new recommendation regarding the need for file reviews was made to the Public Trustee this year.

3.10 *Background* – We completed financial statement audits of four government entities for which the Auditor General is the legislated auditor, and are currently in the process of completing an audit under section 22 of the House of Assembly Management Commission Act to express two separate opinions on House of Assembly controls and compliance. The Office has yet to complete its first annual audit of the newly-formed Nova Scotia Health Authority. Planning and initial transaction testing for this audit are in progress.

▶ Three of four entities audited by the Auditor General received unqualified audit opinions

3.11 *Audit opinions* – As in the prior year, we issued unqualified audit opinions to three of the four entities we audited. The audit opinion of the Trust Funds Administered by the Public Trustee was qualified because it is not possible to verify that all assets, or income related to these assets that came under the Public Trustee's administration, were recorded by the Public Trustee. Audit verification was therefore limited to assets recorded in the records. This



qualification is standard given the nature of the Public Trustee's operations and does not reflect a shortcoming in the financial statements or operations of the Public Trustee.

► Provincial Lotteries and Casino Corporation opinion includes comments on a \$38 million video lottery tax assessment

- 3.12 The audit opinion on the Nova Scotia Provincial Lotteries and Casino Corporation's March 31, 2015 consolidated financial statements included an emphasis of matter paragraph, which is a paragraph, per Canadian Auditing Standards, that highlights matters for the financial statement user's attention, but which have no impact on the fairness of the financial statements. For the Corporation, the matter identified related to the Corporation's appeal of a tax assessment by the Canada Revenue Agency on certain video lottery revenues. The Corporation has remitted \$38 million relative to this matter.
- 3.13 *Audit findings and observations* – There were no findings resulting from our audits of the Nova Scotia Crop and Livestock Insurance Commission and Nova Scotia Provincial Lotteries and Casino Corporation. We noted that recommendations made as a result of the March 31, 2014 audits had been fully implemented.
- 3.14 *Nova Scotia Legal Aid Commission* – We provided a management letter to the chair of the Audit Finance Committee of the Nova Scotia Legal Aid Commission in August 2015. Based on the results of the prior year audit, we recommended that the Audit Finance Committee establish a process to monitor internal controls. While efforts were made to address the recommendation, there is still the need for a periodic review of controls to ensure they are operating as intended. We have therefore recommended a process to monitor controls be established and the results of this process be reported to the Commission on a periodic basis.
- 3.15 *Trust Funds Administered by the Public Trustee* – In October 2015, we provided a draft management letter to the Public Trustee. In prior years and in our May 2012 Report of the Auditor General, we recommended that an accounting system be acquired due to the value of estates and trusts under the Public Trustee's administration. This value has grown to over \$55 million. We have been informed that progress has been made towards implementing this recommendation. We continue to recommend that the Public Trustee develop and implement a fully-functioning and comprehensive accounting system.
- 3.16 We further recommended that the Public Trustee implement the recommendations made in past years with respect to the Common and Special Reserve Funds that the office administers. The Common Fund acts as a general bank account for clients and is used as required for disbursements



of estates. The Special Reserve Fund is intended to act as insurance to meet deficiencies in the Common Fund. These two funds, both with balances of about \$3 million as at March 31, 2015, are equal and therefore we believe the Special Reserve Fund has exceeded its intent as insurance to the Common Fund.

- 3.17 Finally, we made one new internal control recommendation to the Public Trustee. This recommendation highlighted the need for a file review process for files under the administration of trust lawyers. Such a process currently exists for files administered by trust officers and should be extended to trust lawyers as well.

Audit Opinions – Private Sector Auditors

Conclusions and summary of observations

Nine district health authorities, the IWK, seven regional school boards, the Conseil scolaire acadien provincial, Housing Nova Scotia, Nova Scotia Community College, and the Nova Scotia Liquor Corporation were all issued unqualified audit reports by their respective external auditors. Qualified opinions were issued for three other government entities but these qualifications were consistent with prior years and in line with expectations given the nature of those entities' operations. The audit report for the Nova Scotia Primary Forest Products Marketing Board drew attention to the Board's annual operating deficits in each of the last three years and the auditor's concern of the Board's ability to continue as a going concern.

- 3.18 *Background* – The result of an audit is 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, which include accounting principles issued for the public sector. Generally, auditors issue an unqualified opinion when they conclude that the financial statements are fairly presented or they issue a qualified opinion when they conclude the financial statements are not fairly presented, or they are not able to determine if the financial statements have been fairly presented. Auditors will emphasize certain matters if there are matters to bring to the attention of the financial statement user. We believe it is appropriate to comment on these qualified opinions and matters of emphasis.

► Financial statements of significant entities presented fairly

- 3.19 *Audit opinions of significant entities* – Consistent with the prior year, unqualified audit opinions were issued by the private sector auditors of the more significant entities within the government reporting entity. These



entities include all nine district health authorities and the IWK, the seven regional school boards, Conseil scolaire acadien provincial, Housing Nova Scotia, Nova Scotia Community College, and the Nova Scotia Liquor Corporation. We identified these entities as significant due to their financial results and the programs they deliver.

- 3.20 *Qualified audit opinions* – Qualified audit opinions were issued to the Art Gallery of Nova Scotia and Nova Scotia Primary Forest Products Marketing Board, both due to an inability to audit the completeness of revenue, including revenue from donations or other contributions. These qualifications were consistent with the prior year. The audit opinion for the Nova Scotia Primary Forest Products Marketing Board also drew attention to the Board’s annual operating deficits in each of the last three years and the auditor’s concern of the Board’s ability to continue as a going concern.
- 3.21 Nova Scotia E911 Cost Recovery Fund was issued a qualified audit opinion due to the completeness of expenses not being subject to satisfactory audit verification. This qualification is consistent with the prior year.

Communications of Audit Results – Private Sector Auditors

Conclusions and summary of observations

A total of 53 internal control-related issues were noted across all district health authorities and the IWK, school boards, Housing Nova Scotia, Nova Scotia Community College, and the Nova Scotia Liquor Corporation. This represents a 9% decrease in issues raised in the previous year. Of the 53 issues, only 17 (32%) were newly identified in 2014-15. We noted that 36 (68%) of the internal control-related issues identified in the current year have been reported in prior years, and 14 (39%) of those had been reported as far back as 2009-10 or earlier. Many of the issues that have been repeated year after year are IT deficiencies with some being specific to the entity, but there were also several deficiencies identified during an external audit of general computer controls across several entities that share the provincial infrastructure and application support services. Notable non-internal control related deficiencies were highlighted as well. Auditors of certain district health authorities identified important deficiencies in DHA budgeting processes, while auditors of Gambling Awareness Foundation Nova Scotia reported concerns regarding the entity’s fulfillment of its mandate.

- 3.22 *Background* – Auditors must communicate significant deficiencies in internal control identified during financial statement audits to those charged with governance. Other deficiencies reported include matters related to financial reporting and governance. In government entities, 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 usually communicated in documents presented to and discussed with management and boards.

3.23 *Overall results of significant entities* – We reviewed the management letters issued by the external auditors of the 21 more significant entities. These management letters reported deficiencies in several of the entities.

3.24 The following table illustrates the number of issues reported in the communications of audit results, along with those reported in the prior year.

Number of Significant Government Entities with:	2014-15	2013-14
Five or more issues	8	6
One to four issues	11	13
No issues	2	2
Total	21	21



Four significant entities have five or more repeated audit issues

3.25 The following four entities, of those we examined in detail, continue to exhibit numerous internal control or other deficiencies, many of which have existed for several years.

- Cape Breton District Health Authority
- Colchester East Hants Health Authority
- Housing Nova Scotia
- Pictou County Health Authority

3.26 We have previously expressed our concern with the number of recommendations that are not addressed and continue to be reported. Deficiencies that remain outstanding for multiple years can hinder the ability of an entity to achieve its objectives. In addition, by not addressing the issues reported in the audit communications on a timely basis, management and boards of directors of these entities are not fulfilling their responsibilities related to internal controls, external financial reporting, and oversight.

3.27 We recommended in our January 2014 report that the Department of Finance and Treasury Board communicate to boards of directors that issues and deficiencies identified by auditors should be addressed on a timely basis and improvements made as required. In response to our recommendation, the department indicated that it now makes such communications annually as part of the year-end consolidation process. However, entities continue to have repeated year-over-year weaknesses. It is evident that additional



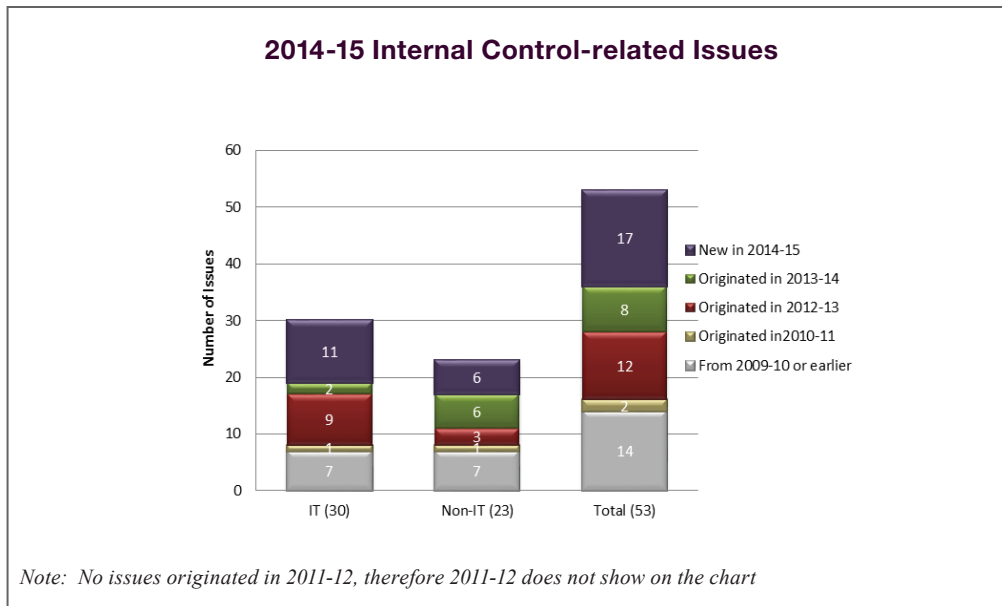
accountability is needed for ensuring recommendations are implemented on a timely basis.

Recommendation 3.1

The Department of Finance and Treasury Board should have a central tracking system to monitor external auditor recommendation implementation results in government agencies, boards and commissions. Entities with low implementation rates should be monitored and encouraged to fix the deficiencies.

Department of Finance and Treasury Board Response: The Department agrees with this recommendation and will work with the TAGR Steering Committee to address this issue. As part of the year-end financial reporting process, Government Accounting requests an update from the entities on their progress in addressing their audit issues and deficiencies. We will continue to request these updates and consider formalizing the monitoring process.

3.28 *Outstanding deficiencies* – Internal control deficiencies are of particular concern as poor internal controls, including those related to IT operations, can result in prolonged exposure to business and financial reporting risks. The following chart shows when the internal control issues reported this year were originally identified and reported by the auditors of the selected entities.

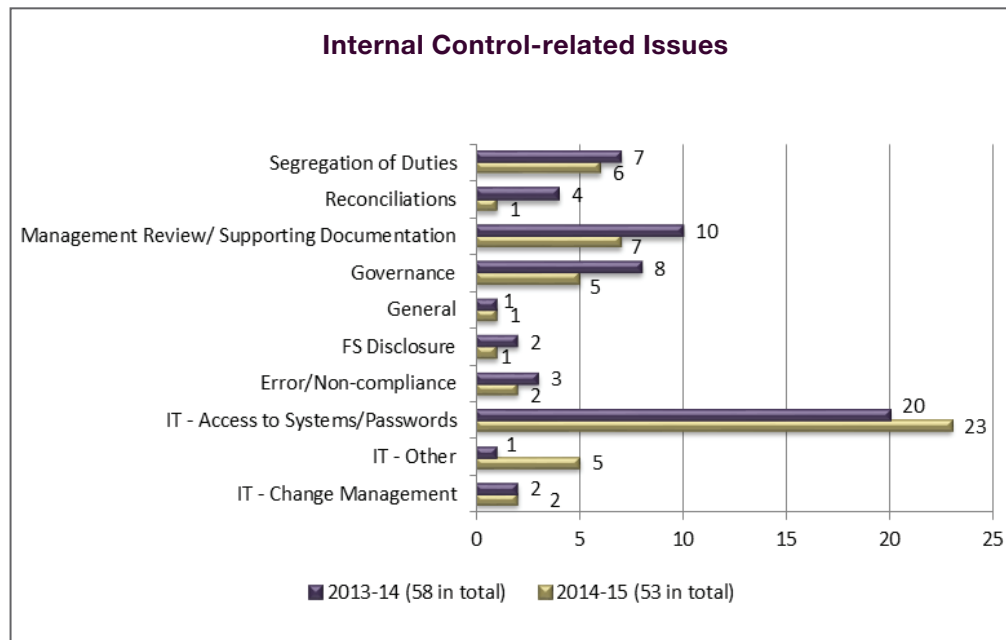


3.29 No internal control-related issues or other matters were reported by the auditor of the Halifax Regional School Board in the current year, and none were reported to the Nova Scotia Community College by its auditor in either the current or prior year.



Sixty-eight per cent of March 31, 2015 reported internal control issues in significant entities reported in the past

3.30 Management letters noted situations in which accounting and control systems or procedures, including those related to information technology systems, were deficient. Seventeen (32%) internal-control related issues were identified and reported in 2014-15 for the first time. The remaining 36 (68%) relate to matters that had been previously reported and remain unresolved. Nine of those matters are issues with the results of the CSAE 3416 report in the health authorities, school boards and other entities. Auditors reported CSAE issues to 12 of the 21 entities of significance, as discussed in more detail below. The following chart shows 2014-15 internal control-related issues by type compared to 2013-14 for the 21 selected entities.



3.31 The overall number of internal control-related issues decreased by 5 (9%) over 2013-14, but the number of IT-related controls increased. General IT internal control deficiencies increased by four (five from one) and IT access-related deficiencies increased by three (23 from 20) to account for an overall increase of seven in IT-related controls.

► Province's general ledger IT-related issues impact other entities

3.32 The increase in the number of IT-related deficiencies in the health authorities, including the IWK, and school boards is related to issues with the results of the CSAE 3416 report. The CSAE 3416 report is meant to provide comfort with respect to controls operating at an external organization when the services of this organization are used in the financial reporting process. The practitioner issuing this report is required, under auditing standards,



to perform an examination of the infrastructure and application support services and provide an audit opinion on the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls implemented to achieve the related control objectives.

- 3.33 The province uses an external organization to provide system development, maintenance, support and configuration services to its general ledger system. We reported the results of the CSAE 3416 report on the general ledger in chapter 2. The general ledger system is also made available to health authorities and school boards, as well as several other entities. The auditor issued a qualified opinion related to testing the operating effectiveness of the logical access to the system. Where the system is shared with the health authorities, school boards, Housing Nova Scotia, and Nova Scotia Liquor Corporation, this issue was also reported by the auditors of those entities.
- 3.34 *Responsibility for addressing issues identified by auditors* – Management has the responsibility for addressing issues identified by their auditors and reporting progress of such to their boards or other governing body.
- 3.35 In prior years we recommended that government develop a process to monitor the implementation rate of recommendations made by entity auditors. We continue to maintain that this is a needed function to ensure entities are implementing those recommendations. It speaks to the significance and importance of issues that auditors repeat recommendations and we believe government should hold those entities accountable to ensure there are no significant control deficiencies that could unnecessarily increase their business risk.
- 3.36 *District health authorities and the IWK Health Centre* – IT-related issues including other matters of interest continue to be reported by the auditors of the Cape Breton, Colchester East Hants, and Pictou County Health Authorities, and the IWK.

► 2014-15 budgets in two health authorities did not represent expected activity

- 3.37 In 2014-15, the auditors of both the Colchester East Hants and the Pictou health authorities noted there were several expense budget line items included for comparative purposes on the entities' financial statements which were budgeted to show significant cost savings. In their discussions with management, the auditors understood that these expense projections had been reduced during the 2014-15 budget process to amounts well below the anticipated expenditures for the year in order to submit a balanced budget to the province, because the province does not accept deficit budgets. The auditors reported that the budgeted cost savings had not been realized and resulted in significant variances between actual and budget amount, and that



the 2014-15 budget was inaccurate in that it did not represent the expected activity of the health authority.

- 3.38 *Colchester East Hants Health Authority* – The auditors of the Colchester East Hants Health Authority identified and reported a number of issues for the first time in 2014-15. They reported that several discrepancies had been noted during the year-end pharmacy inventory count and recommended that management review its count procedures.
- 3.39 *Cumberland Health Authority* – Cumberland Health Authority auditors identified and reported new issues in 2014-15. They identified that certain review and monitoring controls were not operating due to finance staff shortages which also contributed to a lack of segregation of duties. They also identified an inherent weakness in the electronic funds transfer process which increases the risk of inaccurate or inappropriate funds transfers.
- 3.40 *IWK Health Centre* – The Centre’s auditors continue to note that departmental managers do not consistently review attendance data, an issue that has been reported since 2009-10. During the current year, the auditors identified a weakness in the patient billing system. The system allows the input of invalid data and, as a result, an out-of-country patient was not charged for the billable fees related to their stay at the hospital.
- 3.41 We noted that no internal control-related issues were identified either in 2014-15 or 2013-14 for Annapolis Valley Health, Capital District Health, South Shore Health and South West Nova Health.

► Controls over school-based funds are not operating effectively in five school boards

- 3.42 *School boards and Nova Scotia Community College* – School-based funds are amounts collected from students (or donated to the school) and managed by a school or school group for the benefit of these students. They include, among other things, fees for student teams and associations, cafeteria earnings, and school-based fundraising. There continue to be issues related to internal controls surrounding school-based funds.
- 3.43 Revenues from school-based funds in all school boards totaled \$41 million during the fiscal year and the balance held in trust at March 31, 2015 totaled \$21 million. These are significant amounts. Each board requires appropriate internal controls and monitoring processes to ensure that amounts received are recorded, that disbursements made are for authorized and appropriate expenditures, and that the status of each fund is accurately reported in financial statements.



- 3.44 While some boards have made progress in addressing school-based funds control deficiencies, others still have deficiencies to address. The auditors of Annapolis Valley, Cape Breton Victoria, South Shore and Tri-County school boards, as well as the Conseil scolaire acadien provincial, reported issues related to school-based funds (e.g., purchases were contrary to board policy or there was no board policy for the use of the funds, documentation of receipt transactions was limited and not adequate to provide assurance that all receipts were deposited). Some of these issues date back to 2009-10 and have still not been fully addressed.
- 3.45 *Housing Nova Scotia* – In the 2014-15 communication of audit results, the auditors of Housing Nova Scotia repeated several recommendations from prior years. These relate to IT deficiencies, including system access and monitoring issues. Other issues raised related to general internal control matters including the following.
- Senior financial personnel at the housing authorities have the ability to record general journal entries. These personnel are also in a position to review and approve transactions, creating a risk that duties are not properly segregated.
 - Supporting documentation for some expenditures relating to housing renovations was not adequate. There were instances where the supporting documentation provided to the auditors showed only that the expense had been incurred for labour and materials; it did not provide a breakdown of labour or materials or the nature of the work. Additionally, the support lacked an HST number, which prevents Housing Nova Scotia from claiming input tax credits on its HST expense.
- 3.46 *Nova Scotia Liquor Corporation* – With the exception of the issues in the province's general ledger IT system described earlier in this chapter, the auditors of Nova Scotia Liquor Corporation identified no other internal control matters in the management letter. The auditors indicated that IT and segregation of duties deficiencies reported in the prior year had been fully resolved.
- 3.47 *Other entities in the government reporting entity* – In addition to reviewing and reporting on the audit opinions and communications and providing statistics of the results only for the more significant entities, we reviewed the communications of the other entities in the government reporting entity audited by private sector auditors. Below are the more critical deficiencies and other matters of interest.



- 3.48 *Nova Scotia Farm Loan Board* – The auditors of the Nova Scotia Farm Loan Board identified and reported control deficiencies which had not been reported in prior years. They reported that loan approvals are not consistently supported by appropriate documentation including appraisal reports, loan checklists, and official external lenders documents; and approval controls have been circumvented, at times, through the unauthorized use of the risk officer’s seal.
- 3.49 *Gambling Awareness Foundation of Nova Scotia* – The auditors of the Gambling Awareness Foundation of Nova Scotia reported two matters of interest in their management letter. The Foundation had in excess of \$1.3 million in its chequing account, and a balance of over \$920,000 owing to the Department of Health and Wellness. This demonstrates poor cash management as the excess cash balance is not earning interest or providing other value to Nova Scotians. The second matter of interest relates to compliance with stated objectives. In the last two years, the entity has received over \$1.2 million in funding, and has awarded grants totaling less than \$200,000, none of which was awarded in the 2014-15 fiscal year. The auditors noted that this raises a concern that the entity is not fulfilling its stated mandate to disburse monies in support of gambling research, education, treatment and the remediation of the effects of gambling.
- 3.50 *Nova Scotia Public Service Long Term Disability Plan Trust Fund* – Again in 2014-15, the auditor of the Nova Scotia Public Service Long Term Disability Plan Trust Fund reported that the contracted external accountant has full access to all aspects of the general ledger, including accounts payable and accounts receivable processes, and banking. This segregation of duties issue has existed since 2010-11 and increases the risk of undetected unauthorized financial transactions.
- 3.51 *Sherbrooke Restoration Commission* – Sherbrooke Restoration Commission auditors reported a number of internal control deficiencies that have been outstanding for several years.
- The Commission has a number of duties that are not adequately segregated.
 - There are currently limited controls over inventory including controls over valuation and counts.
 - The Commission does not have a formal review and approval process surrounding its financial transactions and records.