

Chapter 1

Financial Audit Work

Key Messages

- Government provided reliable and timely financial information for 2020-21 and released the Public Accounts before the legislative deadline of September 30
- Province received a clean audit opinion on its financial statements
- Significant control weaknesses need to be fixed at two government departments and seven government organizations
- Government provides transparency by disclosing employee compensation and certain payments to vendors

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 matters impacting the Province

Details Around Key Messages

Government provided reliable and timely financial information for 2020-21

- For the 21st year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
 - Released before the legislated September 30th deadline
 - 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
- Despite continued impact of COVID-19 and a provincial election, the Province, other government organizations, and auditors were able to adapt and provide timely financial reporting

Key audit matters reported in the 2020-21 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 2020-21:
 - Major tax revenues:
 - Major tax revenues of \$5 billion including personal income tax, corporate income tax, and harmonized sales tax account for 41% of the Province's revenues
 - Pension, retirement, and other obligations:
 - Totaled \$2.8 billion and include various employee future benefit plans where responsibility rests with the Province
 - Liabilities for contaminated sites:
 - The liability to clean up sites including Boat Harbour and abandoned mine sites has grown significantly over the past five years and this year is \$413 million
 - A further \$19 million recorded as the Province will undertake cleanup work on the Boat Harbour site that is the responsibility of Northern Pulp



Significant control weaknesses at two government departments and seven government organizations

- Department of Lands and Forestry (now Natural Resources and Renewables):
 - 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
- 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
- Significant control weaknesses identified in the following organizations:
 - Canadian Sports Centre Atlantic, Harbourside Commercial Park Inc., Housing Nova Scotia, IWK Health Centre, Nova Scotia Liquor Corporation, Perennia Food & Agriculture Incorporated, Sherbrooke Restoration Commission
- Significant control weaknesses from prior years not resolved in the following organizations:
 - Canadian Sports Centre Atlantic, Housing Nova Scotia, IWK Health Centre

Other Matters of Interest

- COVID-19 PPE and vaccine inventory
 - COVID-19 vaccines received from the federal government at no cost to the Province; information on quantity received disclosed in the Notes to the Province's Consolidated Financial Statements
 - Purchased and donated personal protective equipment properly recorded in the Province's Consolidated Financial Statements
- COVID-19 infrastructure spending
 - Government planned \$228 million investment in infrastructure spending for grants and capital projects
- Disclosure of employee compensation and payments to vendors
 - The Finance Act and the Public Sector Compensation Disclosure Act enable transparency of employee compensation and payments to vendors from the General Revenue Fund
 - Other government organizations are not required to disclose payments to vendors
- Cybersecurity
 - Service Nova Scotia and Internal Services continues to work on regulations to the Shared Services Act, its government-wide risk register, and its training programs

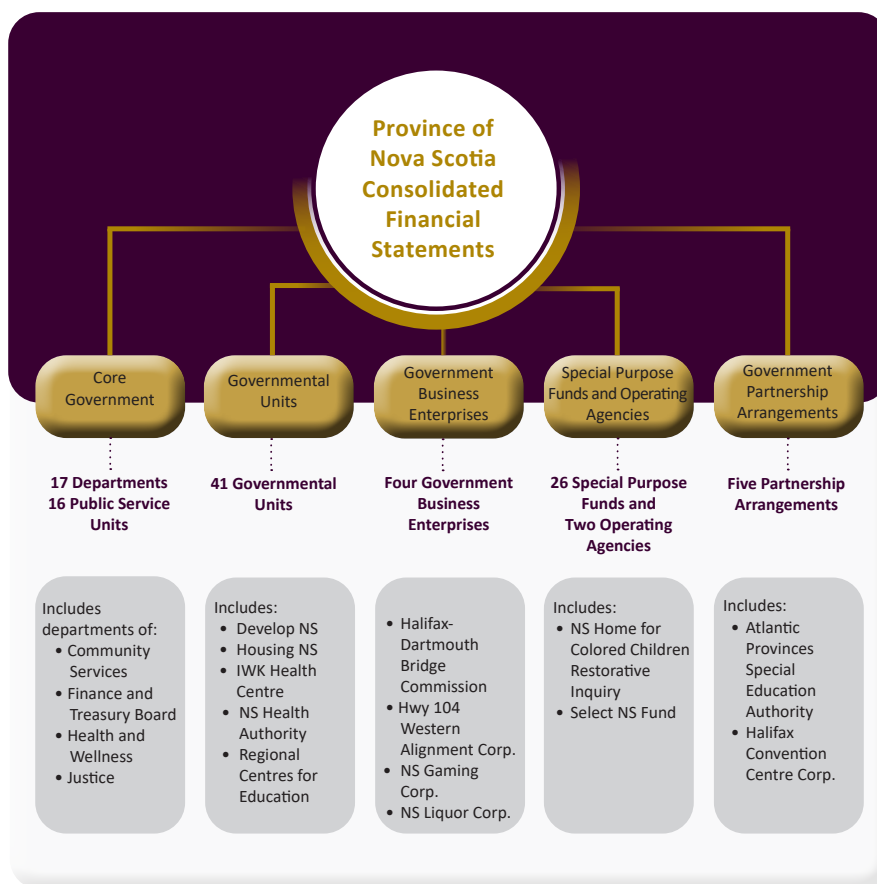
Questions Nova Scotians May Want to Ask

1. When will the Province have an estimate of the cost 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. Why are organizations' payments to vendors not required to be disclosed?
4. How will Service Nova Scotia and Internal Services measure the effectiveness of its cybersecurity risk management program?
5. When will Service Nova Scotia and Internal Services fix the significant control weaknesses over departmental purchasing? Who is holding the Department accountable for fixing these weaknesses?

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 important matters impacting the Province.
- 1.2 The Auditor General Act establishes the Auditor General's mandate, responsibilities, and powers. The Act provides the Office with the mandate to audit all parts of the provincial public sector, which includes government departments and organizations. The Auditor General 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. They 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 financial statement audits of the following government organizations:
- Nova Scotia Health Authority (Nova Scotia Health)
 - Izaak Walton Killam Health Centre (IWK Health Centre)
 - Nova Scotia Legal Aid Commission
- 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, 2021.
- 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 sometimes identify 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.
- 1.7 We had no significant control weaknesses to report to those charged with governance at Nova Scotia Health or Nova Scotia Legal Aid Commission this year. During 2020-21, Nova Scotia Health resolved the two significant control weaknesses we reported in 2019-20. The IWK Health Centre also made progress, taking steps to address three significant control weaknesses which were outstanding from 2019-20. However, we did still report one remaining significant control weakness to the audit committee at the IWK Health Centre. Management’s response is provided in Appendix III Summary of Significant Control Weaknesses – Government Organizations.
- 1.8 To meet our mandate, we rely on private accounting firms to conduct the financial statement audits of most 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 reliable and timely financial information during challenging circumstances

- 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 21 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 quality of the information reported in the financial statements. This is an accomplishment that governments over the past 21 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 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.
- 1.11 We are pleased to report that government departments and organizations worked in cooperation with our Office and component auditors through the changing COVID-19 environment, and a provincial election called on July 17, 2021, to provide timely information for financial statement reporting. Despite these challenges, the Province was still able to release its Public Accounts, which include the Consolidated Financial Statements, before the legislated deadline of September 30th. We appreciate the cooperation that was received throughout government as management and staff worked through these unusual circumstances.
- 1.12 Discussion of the Province’s response to COVID-19 and the 2020-21 financial impact to Nova Scotia is included in Chapter 2 of this report.

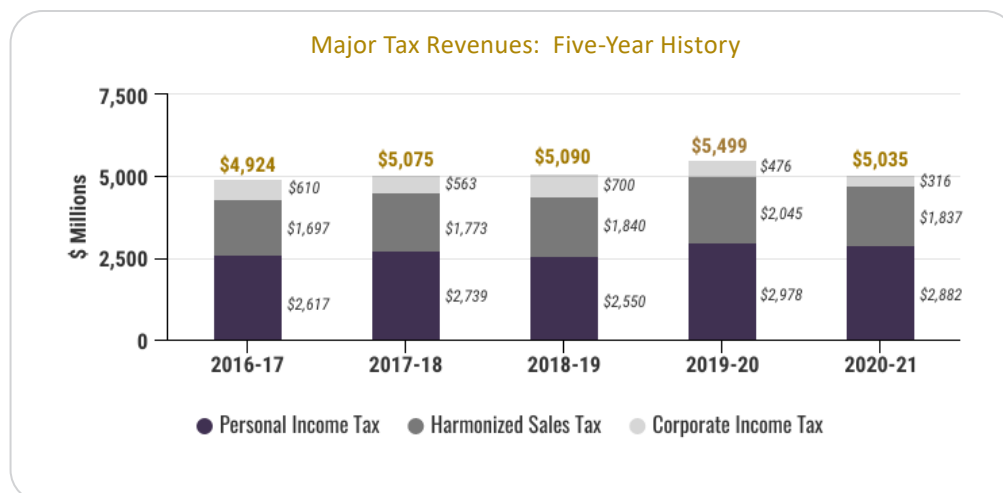


Key audit matters communicated in auditor’s report provide additional information

- 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 The following are the key audit matters addressed in the 2020-21 Independent Auditor’s Report of the Province’s Consolidated Financial Statements. The key audit matters were fairly presented in accordance with Canadian public sector accounting standards.



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.

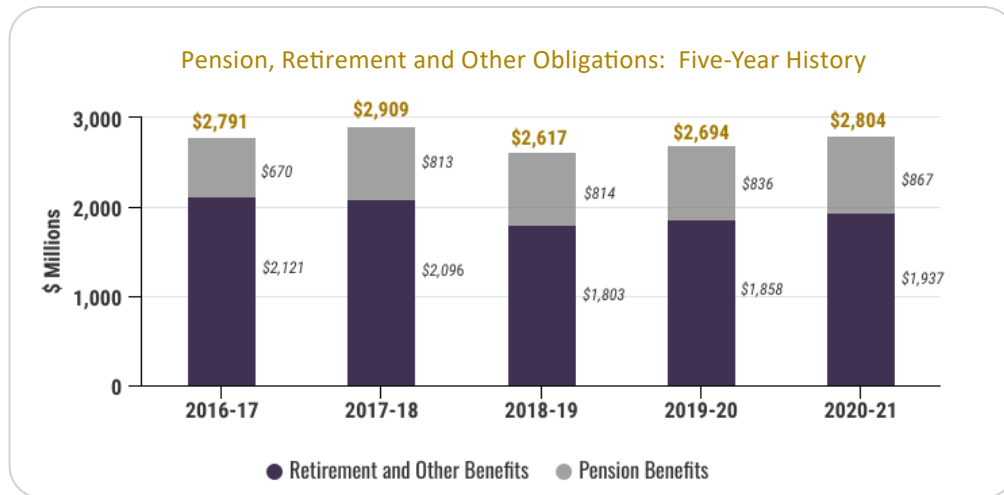


Source: 2020-21 Public Accounts (Independent Auditor's Report)

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 2020-21, major tax revenues totaled \$5 billion and accounted for 41% of the Province's 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. We also collaborated with other legislative audit offices across Canada to ensure our audit procedures reflected best practices, specifically in response to the continued increased uncertainty caused by COVID-19. We were able to conclude that major tax revenues were fairly presented in the Province's Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards.

1.18 Pension, retirement, and other obligations were reported as a key audit matter because the Province's \$2.8 billion liability at March 31, 2021 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.

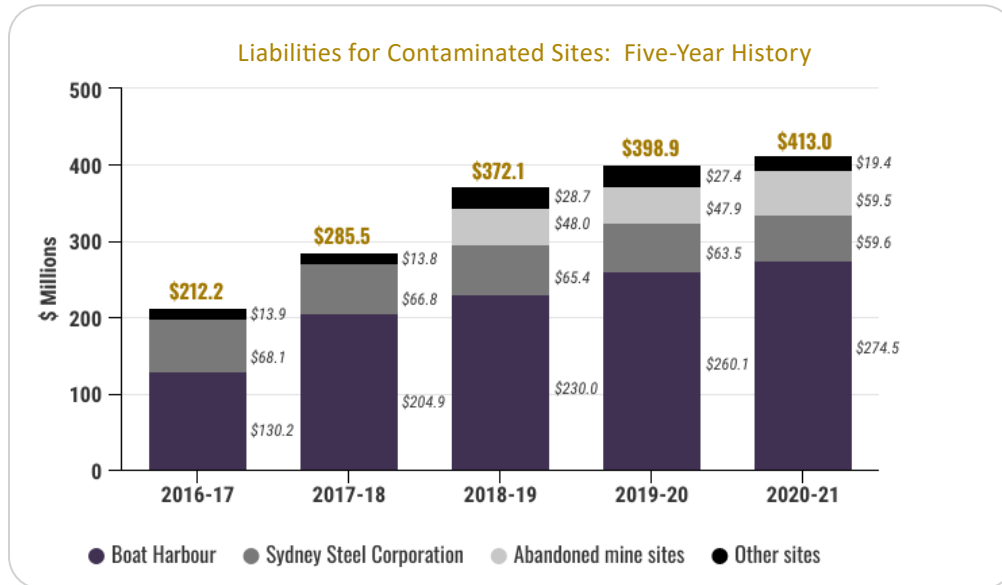


Source: 2020-21 Public Accounts (Independent Auditor's Report)

- 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, 2021, liabilities for contaminated sites were estimated at \$413 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 mainly by increases associated with liabilities for cleaning up Boat Harbour and certain abandoned mine sites.



Source: 2020-21 Public Accounts (Independent Auditor's Report)

Note: The \$413 million charted above in 2020-21 does not include the \$19 million liability discussed in paragraph 1.27

1.22 A liability of \$48 million for abandoned mines was first recorded in 2018-19 when site investigations were completed, and the Province obtained consultant reports that estimated remediation costs at two former gold mine sites.

1.23 As additional environmental investigations are completed and remediation plans are developed, it is possible the Province's liability may differ significantly from the current estimates.

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



Province approved an additional \$19 million related to the Boat Harbour Remediation Project

1.25 The Province's largest contaminated site liability relates to the Boat Harbour Remediation Project to remove contaminated material from Boat Harbour.



Contamination occurred over many years as a result of the nearby pulp mill and a related industry discharging wastewater into the neighbouring tidal estuary. Responsibilities for cleaning up the contamination have been established in historical agreements between the mill operator and the Province. The Province has recorded a \$274.5 million liability for cleaning up the contamination for which it is responsible and this figure is included in the Province's \$413 million Liability for Contaminated Sites reported in the Province's Consolidated Statement of Financial Position at March 31, 2021.

- 1.26 Under the historical agreements, the mill operator, Northern Pulp Nova Scotia Corporation (Northern Pulp) also has certain responsibilities associated with the cleanup of the site. Northern Pulp is responsible for removal of sludge from the Boat Harbour effluent treatment facility aeration stabilization basins. However, as a result of Northern Pulp not providing an acceptable cleanup plan for the aeration stabilization basins, on March 22, 2021 the Province announced it was unable to move forward and begin its cleanup work on the site. As a result, to ensure the timelines for cleanup stayed on schedule, the Province approved an additional \$19 million to have Nova Scotia Lands Inc. complete work that is the responsibility of Northern Pulp. The Province is not accepting any legal liability associated with this additional work.
- 1.27 This additional \$19 million liability is not part of the current \$274.5 million liability for Boat Harbour and is not included as part of the Province's \$413 million liability for contaminated sites. The \$19 million was recorded as an accrued liability in Accounts Payable and Accrued Liabilities in the Province's Consolidated Statement of Financial Position at March 31, 2021.

Significant Control Weaknesses

- 1.28 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 2020-21 Consolidated Financial Statements.
- 1.29 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

1.30 The table below summarizes the number of significant control weaknesses by government department. All seven remaining significant control weaknesses were identified and reported in prior years. Appendix II provides details of each weakness, including its potential impact and management's response.

Government Departments with Significant Control Weaknesses in 2020-21			
Government Department and Nature of Significant Control Weaknesses	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2020-21	Total Outstanding at March 31, 2021
Service Nova Scotia and Internal Services <ul style="list-style-type: none"> Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures 	9	(3)	6
Lands and Forestry (now Natural Resources and Renewables) <ul style="list-style-type: none"> Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites 	1	–	1
Total	10	(3)	7

1.31 As noted in the table above, the Department of Service Nova Scotia and Internal Services (SNS-IS) and the Department of Lands and Forestry did not fully address their significant control weaknesses reported in prior years.

1.32 The Department of Service Nova Scotia and Internal Services had a total of nine significant control weaknesses related to purchases and procurement carried forward from prior years. Three were resolved or no longer considered significant in 2020-21, leaving six significant control weaknesses outstanding at March 31, 2021. No new significant control weaknesses were identified in the current year. We reported previously that SNS-IS may not be able to prevent and detect unauthorized or fraudulent payments or ensure purchases achieve value for money due to these significant control weaknesses. SNS-IS has made progress by improving the segregation of duties over the payments process and establishing committees and policies to address certain significant control weaknesses. However, there is still work to be done to ensure that departmental purchases are authorized, appropriate, and achieve value for money.

1.33 During fiscal 2020-21, the Department of Lands and Forestry developed a risk-based inventory of potentially contaminated sites taking into account



human health risks, ecological impacts, and potential hazards (chemical and physical). However, the Department has not yet completed sufficient, detailed site investigations on all abandoned mine sites identified with potential areas of contamination; therefore, there is a risk of not identifying unaddressed human health and 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 seven government organizations

- 1.34 Seven government organizations included in the Province's 2020-21 Consolidated Financial Statements had significant control weaknesses. Of those seven, three have not resolved weaknesses reported in prior years – Canadian Sports Centre Atlantic, Housing Nova Scotia and IWK Health Centre.
- 1.35 We note that improvements have been made at some organizations. Four organizations either resolved the significant control weaknesses reported last year or made progress that resulted in weaknesses no longer being considered significant.
- 1.36 Although some of the organizations noted below are not financially significant to the Province's Consolidated Financial Statements, their control weaknesses are significant to their operations, mission, and mandate. Appendix III provides details of each weakness, including its potential impact and management's response.

Government Organizations with Significant Control Weaknesses in 2020-21

Government Organization	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2020-21	Plus: Number Identified in 2020-21	Total Outstanding March 31, 2021
Canadian Sports Centre Atlantic	3	(1)	1	3
Housing Nova Scotia	3	–	–	3
Sherbrooke Restoration Commission	–	–	2	2
Harbourside Commercial Park Inc.	2	(2)	1	1
Izaak Walton Killam Health Centre	4	(3)	–	1
Nova Scotia Liquor Corporation	–	–	1	1
Perennia Food & Agriculture Incorporated	–	–	1	1

Government Organizations with Significant Control Weaknesses in 2020-21 (continued)

Government Organization	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2020-21	Plus: Number Identified in 2020-21	Total Outstanding March 31, 2021
Nova Scotia Education Common Services Bureau	1	(1)	–	–
Nova Scotia Health	2	(2)	–	–
Nova Scotia Innovation Corporation	1	(1)	–	–
Sydney Steel Corporation	1	(1)	–	–
Totals	17	(11)	6	12

COVID-19 Matters

1.37 As a result of the COVID-19 pandemic, significant amounts of personal protective equipment (PPE), vaccine inventory, and monetary support were required by the Province; much of which was provided by the federal government as part of its COVID-19 support initiatives.


Nova Scotia Health procured PPE on behalf of the Department of Health and Wellness

1.38 Nova Scotia Health procured PPE on behalf of the Department of Health and Wellness for the Province's pandemic stockpile. The stockpile was used not only by Nova Scotia Health, but also the IWK Health Centre, long-term care facilities, and other smaller organizations to support operations as well as re-opening plans.

1.39 A Memorandum of Understanding (MOU) between the Province and Nova Scotia Health was created which outlines the details of how the Department of Health and Wellness appointed Nova Scotia Health to administer the inventory on its behalf. The Department owned the inventory, was responsible for any costs, and established base levels of inventory.


COVID-19 vaccines received from the federal government at no cost to the Province

1.40 In support of vaccine roll-out plans, the federal government provided COVID-19 vaccines to the Province at no cost. Due to the confidentiality clauses embedded in contracts between the federal government and the various COVID-19 vaccine manufacturers, the federal government was unable to share information on the cost of vaccines donated. Therefore, COVID-19 vaccines received from the federal government at no cost could



not be valued and are not recorded in the Province's Consolidated Financial Statements.

- 1.41 The Province did however disclose in the Notes to the Consolidated Financial Statements the number of vaccines received and held at March 31, 2021. During fiscal 2020-21 the Province received 186,000 COVID-19 vaccines and held 70,200 in inventory at March 31, 2021.
- 1.42 The federal government also provided PPE and related supplies to the Province at no cost. The Province was able to record this inventory in its financial statements as sufficient information was available to value it. The recorded value of this PPE and related supplies was \$18.4 million at March 31, 2021.
- 1.43 To ensure proper presentation in the Consolidated Financial Statements of the Province, we attended COVID-19 vaccine and PPE inventory counts. We also verified that PPE donated by the federal government was recorded at the appropriate cost. We concluded that both vaccine and PPE inventory were presented fairly in accordance with Canadian public sector accounting standards. Additional details on the federally donated inventory can be found in Note 15 of the Consolidated Financial Statements.

Infrastructure spending invested in projects to stimulate the economy

- 1.44 As part of its response to COVID-19, the Province provided a number of relief measures offering financial help and support to individuals, families, and businesses facing hardship as a result of COVID-19. One of the planned initiatives was spending of \$228 million to stimulate the Nova Scotia economy by creating jobs through more than 200 infrastructure projects across the Province.
- 1.45 We tested a sample of projects to gain an understanding of the projects, their impact to the Province's 2020-21 Consolidated Financial Statements, and to ensure these projects were correctly recorded. Projects were either grants to organizations providing services to the public, or capital project investments spent primarily on the Province's own infrastructure such as highways and school buildings. Grants to organizations have an immediate impact on the Province's total expenses and its annual deficit. Investments in the Province's capital assets do not immediately impact expenses; they are initially recorded as increases to the value of the Province's tangible capital assets and are amortized to expense over future years. We concluded the projects we sampled were recorded properly in the Province's Consolidated Financial Statements.

Public Disclosure of Compensation and Payments




Public disclosure of employee compensation and payments to vendors promotes transparency

- 1.46 In Nova Scotia, the Finance Act and the Public Sector Compensation Disclosure Act enable transparency of payments to employees and to vendors.
- 1.47 In accordance with the Finance Act of Nova Scotia, the Province annually reports on sums paid from the Province's General Revenue Fund during the fiscal year. Payments from the General Revenue Fund are payments by government departments and public service units. This information is provided in Public Accounts Volume 3 – Supplementary Information where the Province publishes accumulative payments made to individuals and suppliers by departments and public service units that meet the following thresholds:
- salaries over \$25,000
 - travel exceeding \$3,500
 - all other payments exceeding \$5,000
- 1.48 In 2010, the Province passed the Public Sector Compensation Disclosure Act (the Act) to promote further transparency and provide Nova Scotians with additional information on compensation paid to any person by a public sector body that is not already reported in the Public Accounts Volume 3 – Supplementary Information. Examples include Nova Scotia Health and the Nova Scotia Liquor Corporation.
- 1.49 Some other non-profit organizations may be required to report under the Act if they meet certain funding criteria, for example Boys and Girls Clubs of Greater Halifax and the Canadian Red Cross Society. Regulations to the Act have also designated postsecondary institutions such as the Atlantic School of Theology and Mount Saint Vincent University as entities that must report on compensation.
- 1.50 The Act requires public sector bodies to publicly disclose compensation paid to any person in the fiscal year, if the amount of compensation to that person is \$100,000 or more. This includes compensation paid to, or for the benefit of, each of its board members, officers, employees, contractors, and consultants. Compensation includes the total cash and non-cash salary, wages, payments, allowances, bonuses, and commissions other than a pension.
- 1.51 Details for how and when the disclosure must be made are also defined in the Act. The disclosure must be included in the organization's audited financial statements or in a separate statement prepared for the purposes of



the Act and certified by an auditor. As an example, our Office provides an assurance report on disclosure made by Nova Scotia Health and the IWK Health Centre. The disclosure must be made within six months after the end of each fiscal year, include the first and last name and compensation of each person for whom disclosure is required, and must be published in a way so that it is accessible by any person without cost. The Department of Finance and Treasury Board provides a public website listing reports of the entities that have submitted their disclosure reports.

 **Payments to corporations made by other government organizations not publicly disclosed**

- 1.52 Payments made to corporations are not included in the public reporting required under the Public Sector Compensation Disclosure Act; only payments to individuals are included in the public disclosures under this Act.
- 1.53 While payments to corporations, such as vendors, made from the General Revenue Fund are disclosed publicly under the Finance Act in Public Accounts Volume 3, the General Revenue Fund payments do not include those made by other government organizations such as crown corporations. Payments made to corporations by other government organizations are not publicly disclosed.

Follow-up on Cybersecurity

- 1.54 We first discussed cybersecurity in Chapter 3 of our October 2019 Financial Report. We highlighted the status of the Province's and certain government organizations' cybersecurity risk management programs. We found there was a varied understanding of cybersecurity responsibilities and that cybersecurity programs were in various stages of development. The following paragraphs describe the status of those matters as of March 31, 2021 based on inquiries of management at government departments and organizations. 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 finalized regulations which govern cybersecurity**

- 1.55 In previous years, we reported that regulations under the Shared Services Act of 2014 were not yet finalized by the Department of Service Nova Scotia and Internal Services (SNS-IS).
- 1.56 SNS-IS management indicated that as of March 31, 2021, these regulations were not finalized. They indicated that in addition to continuing to focus efforts and resources to respond to the impacts of COVID-19, they had reviewed the cybersecurity environment and plan to update the cybersecurity policy in government's Corporate Administrative Policy Manual in the spring of 2022.

- 1.57 Updating the policy will support government in achieving its cybersecurity goals, but finalizing the regulations is necessary as they will outline what cybersecurity support services the Department will provide to crown corporations, other departments, and public sector entities. Finalizing the regulations will assist organizations in understanding their responsibilities for addressing cybersecurity risks.

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

- 1.58 Last year we reported that SNS-IS indicated it had developed a process to assess cybersecurity risks for new IT projects. It planned to make major changes to existing IT systems for all government departments and agencies and in the future would consider assessing cybersecurity risks of these older existing systems.
- 1.59 This year, SNS-IS management informed us that they are continuing to assess cybersecurity threat risks and build mitigation strategies for all new systems and any new development on existing systems. In addition, they indicated they have started assessing cybersecurity risks for older systems for which no risk assessment had been performed previously. Although a risk assessment process has been put in place for new systems and progress has been made towards old systems, the overall risk assessment is still not complete, and this may expose the Province to unaddressed cybersecurity risks.

 **Cybersecurity training programs are still in development**

- 1.60 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.
- 1.61 In prior years, we reported that although SNS-IS indicated it makes users aware of cybersecurity risks, it did not have a government-wide training program for all IT users. Mandatory training on cybersecurity was limited to only some employees.
- 1.62 This year, when we asked SNS-IS management about a province-wide training and awareness strategy for cybersecurity, they indicated:
- a new mandatory Cyber Awareness Training curriculum will be released for procurement following appropriate approvals; expected by December 31, 2021
 - training will be rolled out in phases beginning six to nine months following vendor selection

- the rollout strategy includes the following groups:
 - Phase 1 – SNS-IS’s Nova Scotia Digital Services team
 - Phase 2 – All government
 - Phase 3 – Nova Scotia Health IT professionals

1.63 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.



Organizations indicate they are moving forward in managing their cybersecurity programs

1.64 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. In previous years, we surveyed significant government organizations in the area of cybersecurity and reported that some did not have a cybersecurity governance structure in place and/or had not implemented a cybersecurity risk management program.

1.65 In 2021, management of the following two organizations indicated they were moving forward in managing their cybersecurity risks.

- Housing Nova Scotia – Previously, the Department of Municipal Affairs and Housing was working towards developing a shared model approach which included Housing Nova Scotia. Due to changes in the organizational structure, that approach was no longer applicable. The Cyber Security & Risk Management group within SNS-IS drafted a formal Cyber Security Response Plan to support the new structure. If this plan is approved, it is expected to be adopted by Housing Nova Scotia and extended to the housing authorities.
- Nova Scotia Municipal Finance Corporation – Management indicated that they researched to determine their role and identify actions needed to assist the Province in managing cybersecurity risks. A cybersecurity strategies policy was approved by the Board of Directors on November 26, 2020.

1.66 In our December 2020 Financial Report, we reported that Nova Scotia Health did not have a cybersecurity governance structure in place but it had begun a review to identify supports needed for a cybersecurity risk management program that would align with the Province’s cybersecurity program. An external consulting firm was engaged to conduct an independent review of Nova Scotia Health’s cybersecurity environment.

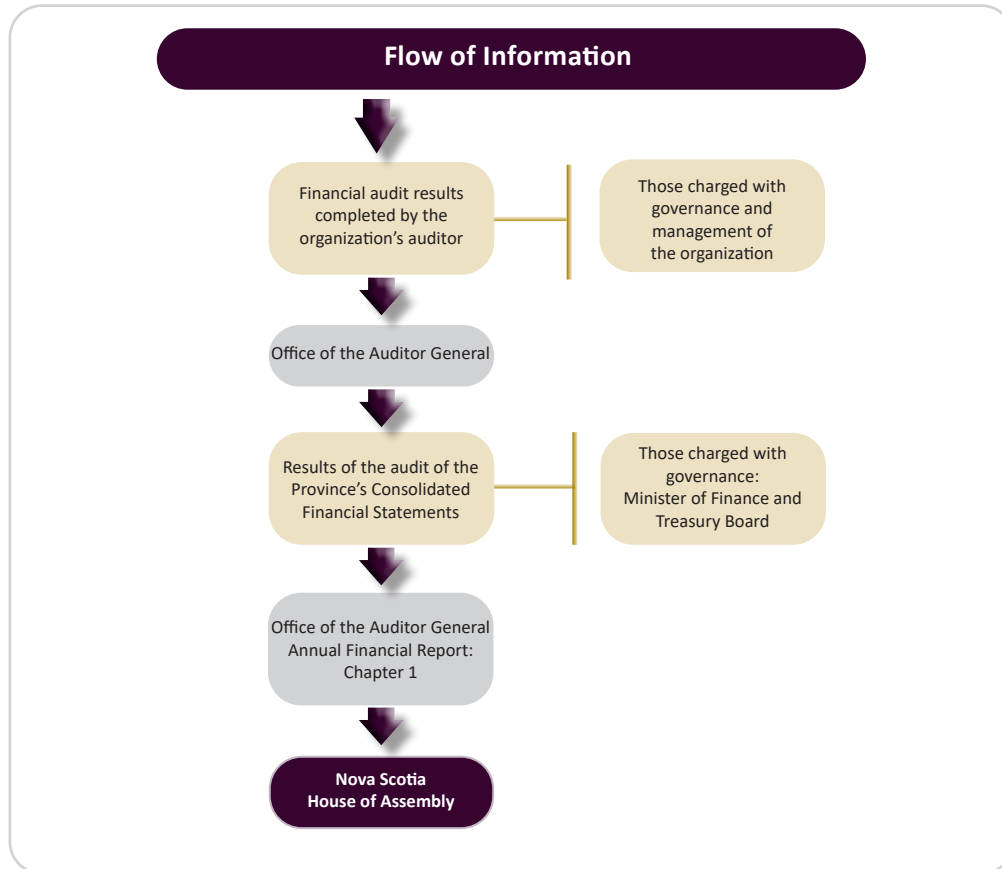


- 1.67 Nova Scotia Health indicated they now have a cybersecurity governance and operating model and a roadmap that includes recommendations to improve their cybersecurity environment. Management indicated that they plan to address the primary recommendation to establish an internal cybersecurity team. In addition, according to management, Nova Scotia Health has developed an overarching Information Security Policy but is waiting on addressing the other recommended initiatives until the creation of the internal cybersecurity team.



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 Weaknesses	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>Management’s response (unaudited) SNSIS is committed to addressing all weaknesses identified to ensure continued security.</p> <p>Procurement is creating the Procurement Control Excellence program which will focus on a compliance framework, a supplier performance management program, and the completion of additional protocols to assist public sector entities. It is anticipated to roll out to all clients in 2021-22 and 2022-23.</p> <p>Procurement has also established a Standard Operating Procedures (SOP) Committee. The committee has developed a master list of documentation requirements. All SOPs will be circulated by end of 2021-22.</p> <p>Operational Accounting – Procurement team implemented a SharePoint site in March 2021 for all staff. This provides access to procedures and resources. Version and access control has been implemented.</p> <p>Operational Accounting removed payment processing access from the vendor team to prevent unauthorized payments. Full implementation of a streamlined vendor management process is anticipated by November 30, 2021.</p>	



Department of Service Nova Scotia and Internal Services (Continued)	
<p>An IT solution has been developed to digitize the current signing authority process of approvals for Operational Accounting. Full implementation of this solution is targeted for Winter 2022.</p> <p>Operational Accounting and Procurement have established a joint steering committee to enhance collaboration between branches. A Purchase Order Policy has been developed to ensure appropriate approvals prior to the issuance.</p>	
Department of Lands and Forestry (now Natural Resources and Renewables)	
Significant Control Weaknesses	Potential Impact
<p>1. Sufficient site investigations and detailed environmental tests on all abandoned mine sites have not been completed.</p>	<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>
Management's response (unaudited)	
<p>The Department of Natural Resources and Renewables continues to work with Nova Scotia Lands to implement a plan for evaluating and, if necessary, remediating potential contamination on abandoned mine sites on Crown lands on a risk basis. A site risk ranking process, addressing human health risks and ecological concerns, has been completed and additional environmental site assessments are anticipated to be initiated in 2022.</p>	



Summary of Significant Control Weaknesses – Government Organizations

Canadian Sports Centre Atlantic	
Significant Control Weaknesses	Potential Impact
1. No evidence of review and approval of invoices, expense reports and payroll.	Increased risk of inappropriate or unauthorized payments made to vendors and/or employees.
2. Lack of general internal controls in the financial reporting process.	Increased risk of inappropriate or unauthorized journal entries being recorded.
3. Staff must select the bank account that funds received via e-transfers are deposited.	Increased risk for misappropriation of funds.
<p>Management's Response (unaudited) Procedures have been put in place to address the auditor's comment in number 1. Due to the small size of the organization, there is limited opportunity to implement all internal controls, so the organization has arranged for the periodic review of the financial records by the Chair of the Finance Committee as a compensating control. Every invoice will be individually reviewed and signed by the CEO as well as reviewed as a collective by both the CEO and the Chair of the Finance Committee.</p>	

Housing Nova Scotia	
Significant Control Weaknesses	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.
<p>Management's Response (unaudited) The recommended solutions to the control weaknesses noted in this chapter have a government wide impact that affects all Province of Nova Scotia users. Housing Nova Scotia (HNS), as part of the Department of Municipal Affairs and Housing (DMAH), has shared these observations with the Department of Service Nova Scotia Internal Services (SNS-IS).</p> <p>SNS-IS, in its corporate role, has assumed responsibility and has implemented practices or developing practices to mitigate the control weaknesses noted. Specifically:</p> <ul style="list-style-type: none"> • SNS-IS is developing a new Credential Standard to address the limited controls relating to user accounts and password expiry. All data changes require business confirmation, and SNS-IS management is notified when a business partner requests a data change. • An upgraded Oracle Database has been implemented to support some audit capabilities for user accounts. • To mitigate this deficiency, approval and verification processes are in place for changes to non-production and production environments, and no one team member can promote directly to production without additional approvals. DMAH will continue to communicate any relevant observations and recommendation(s) to SNS-IS. 	



Sherbrooke Restoration Commission	
Significant Control Weaknesses	Potential Impact
1. Journal entries are not approved in a timely manner.	Increased risk of errors or inappropriate transactions going undetected.
2. The accounting software is installed on a laptop that is shared through common credentials between multiple people.	Increased risk of fraud and errors going undetected and lack of accountability for system users.
Management's Response (unaudited)	
1. All journal entries over \$ 2000.00 must be approved before posting. All Journal entries under \$2000.00 are approved prior to payment.	
2. Credentials have been set up for each user.	

Harbourside Commerical Park Inc.	
Significant Control Weaknesses	Potential Impact
1. Invoices are approved and authorized for payment by the same individual.	Increased risk of inappropriate or unauthorized payments.
Management's Response (unaudited)	
We agree with the recommendation and our procurement process states that payments are approved by those who purchase goods and services, and payments are authorized by the Finance Division after receiving all required approvals. This separates the invoice approval function from the accounts payable function. Management is confident this addresses the identified risk.	

Izaak Walton Killam Health Centre	
Significant Control Weaknesses	Potential Impact
1. Managers do not consistently review and approve attendance data.	Time may be recorded incorrectly resulting in inappropriate payments being made to employees and reflected in the corresponding leave banks.
Management's Response (unaudited)	
Due to complexities with having two time recording systems, a full implementation of an organization-wide time approval process was always intended to extend into fiscal 2021-22. A project team was formed in Q4 2019-20 to action a time entry and approval policy and process, including a monitoring process. The project was postponed as the result of the pandemic, but resumed in July 2021. The project team has been actively working to determine the best approach for supporting its leaders in reviewing and approving time. While some leaders are currently approving time, formal time approval (including monitoring) is planned to commence in January 2022, with select leaders involved as early adopters through October to December 2021.	



Nova Scotia Liquor Corporation	
Significant Control Weaknesses	Potential Impact
1. User access is not removed in a timely manner following employee departures.	Unauthorized access to information and an increased risk of unauthorized or inappropriate payments.
<p>Management's Response (unaudited) The NSLC accepts the recommendation. We will review and update our current process around the communication of employee departures to IT to ensure timely termination in system access.</p> <p>Status</p> <ul style="list-style-type: none"> Review of current process is complete. Identified gaps in process are being mitigated including discussions of further opportunities to tighten controls. Action items: <ul style="list-style-type: none"> Inventory of all systems with employee access; priority is SAP, Beanstore & WMS. Completion target Q4 Document current process overall – Completion target Q4 Quarterly monitoring of system access for those employees still active but have not worked in the past quarter; IT review to ensure systems were not accessed by these employees after last day worked. – Monitoring has commenced. 	

Perennia Food & Agriculture Incorporated	
Significant Control Weaknesses	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>Management's Response (unaudited) Management agrees that with the size of the finance department at Perennia that segregation of duties presents a risk however, compensating controls are in place to mitigate the risk associated with segregation of duties weaknesses identified.</p> <p>Compensating controls include:</p> <ul style="list-style-type: none"> Supplier statement reconciliations All outgoing payments require two signatures Purchases are authorized as per Perennia's procurement policy Management review of master data setup and changes Weekly review of journal postings from the following subsidiary ledgers: vendor payments journal, vendor invoice journal, customer payments journal, customer invoice journal, general journal Monthly management review of financial results, distribution to Board Finance Committee followed by quarterly Board Finance Committee meetings 	