

# Chapter 1

## Financial Audit Work Results

### Key Messages

- Government reported reliable and timely financial information for 2019-20 despite COVID-19 challenges
- While financial statements are reliable and many processes work well, significant control weaknesses need to be fixed at two government departments and eight government organizations
- Key audit matters for 2019-20 were major tax revenues, employee future benefits, and contaminated sites

### 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

### Details Around Key Messages

#### Government reported reliable and timely financial information for 2019-20 despite COVID-19 challenges

- For the 20th year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
  - The financial statements meet Canadian public sector accounting standards
  - Users can place reliance on the Province's financial statements
  - Although accounting standards have been met, underlying control weaknesses exist
  - Reported control weaknesses increase the risk of unreliable financial reporting and misuse of assets in the future
- Despite COVID-19, the Province, other government organizations, and auditors were able to adapt and provide timely financial reporting

#### Key audit matters now communicated in Independent Auditor's Report provide additional information

- Our Office is the first provincial legislative audit office in Canada to include reporting of key audit matters within the auditor's report of a province's consolidated financial statements
- Matters that are complex, have a high degree of uncertainty or are important to the public are highlighted as key audit matters
- Key audit matters addressed in the financial statement audit of the Province of Nova Scotia relate to estimates for major tax revenues, employee future benefits and contaminated sites
- Key audit matters were properly presented in the Province's Consolidated Financial Statements and were disclosed appropriately in accordance with Canadian public sector accounting standards



### **Significant control weaknesses at two government departments and eight government organizations**

- Department of Service Nova Scotia and Internal Services:
  - Nine weaknesses in total, eight of which have previously been reported
  - Insufficient purchase and payment processing controls
- Department of Lands and Forestry:
  - As reported in 2018-19, insufficient site investigations and environmental testing of abandoned mine sites
- Significant control weaknesses identified at the following government organizations:
  - Canadian Sports Centre Atlantic, Harbourside Commercial Park Inc., Housing Nova Scotia, IWK Health Centre, NS Education Common Services Bureau, NS Health Authority, NS Innovation Corporation, and Sydney Steel Corporation
- Significant control weaknesses identified in prior years have not been sufficiently addressed at the following organizations:
  - Housing Nova Scotia, IWK Health Centre, and NS Health Authority

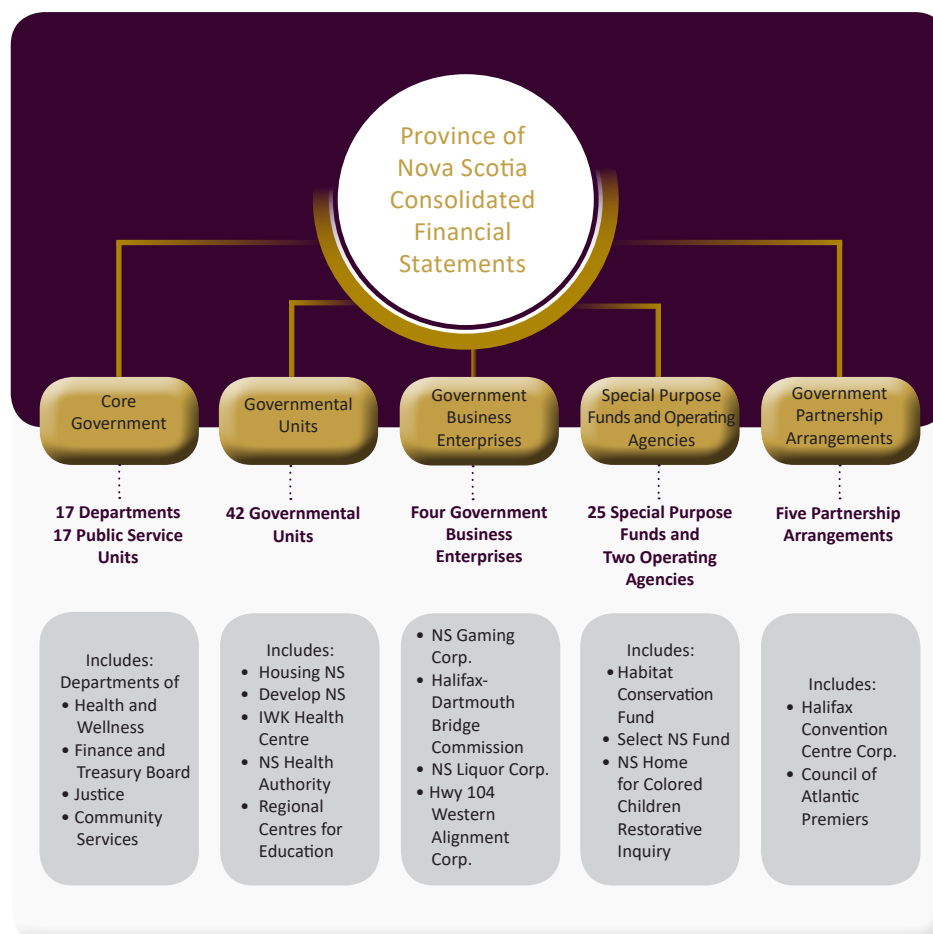
### **Questions Nova Scotians May Want to Ask**

1. When will the Department of Service Nova Scotia and Internal Services fix the significant control weaknesses over departmental purchasing and user access? Who is holding the Department accountable for fixing these weaknesses?
2. What steps has the Department of Service Nova Scotia and Internal Services taken to address potential risks around fraud and error since 2018-19?
3. When will the Province know with relative certainty the cost to clean up Boat Harbour?
4. Without site investigations, has the Department of Lands and Forestry put appropriate safeguards in place to protect the public at sites where potential contamination has been identified?
5. Why did the Province set up external trusts outside government control and what does that mean for residual funds remaining at the end of the trust agreements?

# 1 Financial Audit Work Results

## 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 Government of Nova Scotia.
- 1.2 The Auditor General Act (the Act) establishes the Auditor General's mandate, responsibilities, and powers. The Act also provides the Office with the mandate to audit all parts of the provincial public sector, which includes government departments and organizations. The Act also stipulates that the Auditor General shall audit the annual Consolidated Financial Statements of the Province.
- 1.3 The following diagram shows that the Consolidated Financial Statements of the Province are an accumulation of the assets, liabilities, revenues, and expenses of all the activities and organizations that it controls.





1.4 To exercise our mandate, we rely on private accounting firms to conduct the financial statement audits of most government organizations. Our Office conducts 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
- Izaak Walton Killam Health Centre (IWK Health Centre)
- Nova Scotia Legal Aid Commission

1.5 As part of our audit of the Consolidated Financial Statements of the Province, we compile the results of the financial audit work from the individual audits of all government organizations. Appendix I shows how these audit results are ultimately reported to the House of Assembly through our annual financial report.



Government provided reliable and timely financial information during challenging circumstances

1.6 For the 20th year in a row, the Province of Nova Scotia received an unmodified opinion on its Consolidated Financial Statements from the Auditor General of Nova Scotia. An unmodified opinion, or what is commonly referred to as a "clean" audit opinion, means that an auditor has no significant concerns about the quality of the information reported in the financial statements. This is an accomplishment that governments over the past 20 years should take pride in. We believe it's reasonable for all Nova Scotians, including elected officials, to expect a clean audit opinion on the Province's Consolidated Financial Statements.

1.7 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. Our clean audit opinion indicates we are satisfied that users can place reliance on the numbers and information contained in the Consolidated Financial Statements.

1.8 We are pleased to report that although the reporting of 2019-20 financial results were impacted considerably by COVID-19, government departments and organizations, in cooperation with our Office and component auditors, adapted to the situation and were able to provide timely financial statement reporting. We appreciate the cooperation we received throughout government, as management and staff worked through an incredibly challenging situation. Further discussion of the Province's response to COVID-19 and the financial impact to Nova Scotia is included in Chapter 2 of this report.



➔ Key audit matters now communicated in auditor's report provide additional information

- 1.9 Our Office is the first provincial legislative audit office in Canada to include reporting of key audit matters within the Independent Auditor's Report of a Province's Consolidated Financial Statements. Reporting on key audit matters provides additional insights into how important items were addressed by our Office during the audit. Matters that are complex, have a high degree of uncertainty or are important to the public are highlighted as key audit matters.
- 1.10 The following are the key audit matters addressed in the 2019-20 Independent Auditor's Report:
- 1.11 **Major tax revenues** including personal income taxes (PIT), corporate income taxes (CIT), and Harmonized Sales Tax (HST) were reported as a key audit matter due to their significance and the uncertainty included in these estimates, as they involve forecasting into the future. Since there is a delay in 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 using complex forecasting models that rely considerably on historical data and trends, as well as the Province's economic forecast. In 2019-20, major tax revenues totaled \$5.5 billion and accounted for 45% of the Province's revenues.
- 1.12 We addressed this matter by testing underlying data used in the tax revenue forecasting models and reviewing evidence to support key inputs. We collaborated with other legislative audit offices across Canada to ensure our audit procedures reflected best practices, specifically in response to the increased uncertainty caused by COVID-19. We were able to conclude that major tax revenues were properly presented in the Province's Consolidated Financial Statements and were disclosed appropriately in accordance with Canadian public sector accounting standards.
- 1.13 **Pension, retirement, and other obligations** were reported as a key audit matter because the Province's liability at March 31, 2020 totaled \$2.7 billion and is susceptible to uncertainty due to assumptions that are subject to change in the future. Assumptions include estimates for the future rate of inflation, future salary increases, retirement ages, life expectancy, and other variables. The liability for pension, retirement, and other obligations requires the use of actuarial experts and places reliance on their valuation results.
- 1.14 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 and engaged the services of our own independent actuary to corroborate results. We were able to conclude that pension, retirement, and other obligations were properly presented in the Province's Consolidated Financial Statements and were disclosed appropriately in accordance with Canadian public sector accounting standards.

- 1.15 **Liabilities for contaminated sites** are a key audit matter because these liabilities are significant estimates of future costs required to complete the necessary clean-up of contaminated sites falling under the Province's responsibility. In 2019-20, liabilities for contaminated sites were estimated at \$399 million. As additional environmental investigations are completed and remediation plans developed, it is possible the Province's liability may differ significantly from the current estimates.
- 1.16 We addressed this matter by engaging an independent engineering firm to review cost estimates to remediate Boat Harbour – the Province's largest contaminated site liability – with a remaining estimated clean-up cost of \$260 million. We also tested the reasonableness of clean-up costs for a sample of additional contaminated sites. We were able to conclude that liabilities for contaminated sites were properly presented in the Province's Consolidated Financial Statements and were disclosed appropriately in accordance with Canadian public sector accounting standards.

### Significant Control Weaknesses

- 1.17 We identified significant weaknesses in internal controls during this year's audit of the Province's Consolidated Financial Statements at government departments and organizations. 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.
- 1.18 The presence of significant control weaknesses does not mean that the Province's or the organizations' financial statements are materially misstated. Even though we reported significant control weaknesses in 2019-20, we were able to address the associated risks through our audit work and provide a clean audit opinion on the Province's 2019-20 Consolidated Financial Statements.
- 1.19 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. Therefore, significant weaknesses in internal controls should be addressed in a timely manner.



➔ Significant control weaknesses identified at two government departments

1.20 The table below summarizes the number of significant control weaknesses outstanding by government department. Appendix II provides details of each weakness, including its potential impact and management's response.

Government Departments with Significant Control Weaknesses in 2019-20 (Appendix II)			
Government Department and Nature of Significant Control Weaknesses	Number Identified in Prior Years	Number Identified in 2019-20	Total Outstanding at March 31, 2020
Service Nova Scotia and Internal Services <ul style="list-style-type: none"> <li>Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring user access to the Province's accounting system</li> </ul>	8	1	9
Lands and Forestry <ul style="list-style-type: none"> <li>Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites on Crown lands</li> </ul>	1	-	1
<b>Total</b>	<b>9</b>	<b>1</b>	<b>10</b>

➔ Significant control weaknesses reported previously at two departments remain unfixed

1.21 As noted in 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 the prior year. Internal control weaknesses that remain unaddressed over multiple years can diminish the financial management control environment; therefore, it is important for departments to address their control weaknesses.

1.22 The Department of Service Nova Scotia and Internal Services has eight significant control weaknesses related to purchases and procurement carried forward from prior years. 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. Although SNS-IS has initiated a process to address these weaknesses, there is still work to be done.

1.23 In 2018-19, we reported that the Department of Lands and Forestry had not completed sufficient site investigations of abandoned mine sites identified with potential areas of contamination. The Department has made progress by implementing a risk-based process to rank sites relative to potential contamination risk and identify priorities for further action; however, without appropriate analysis, there is a risk that potential contamination is not identified or managed, resulting in possible unaddressed human health or ecological concerns.



### Significant control weaknesses reported at eight government organizations

1.24 Eight government organizations included in the Province's Consolidated Financial Statements had significant control weaknesses identified as part of their 2019-20 audits. 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 2019-20 (Appendix III)	
Government Organization	Number of Significant Control Weaknesses
Canadian Sports Centre Atlantic	3
Harbourside Commercial Park Inc.	2
Housing Nova Scotia	3
IWK Health Centre	4
Nova Scotia Education Common Services Bureau	1
Nova Scotia Health Authority	2
Nova Scotia Innovation Corporation	1
Sydney Steel Corporation	1
<b>Total</b>	<b>17</b>

### Significant control weaknesses identified in prior years have not been addressed

1.25 The following three organizations from the above table have significant control deficiencies that were reported previously and remain outstanding:

- Housing Nova Scotia did not address three IT-related findings
- IWK Health Centre did not resolve two weaknesses related to their capital asset processes
- Nova Scotia Health Authority requires additional improvement to its internal controls over financial reporting and its payroll processes

### Province continues to provide money to external trusts outside of the Province's control

1.26 The Province uses various types of government organizations and other corporate structures to provide services to Nova Scotians, one of which is external trusts. Once government commits to funding an external trust, it loses control of the funds. How government decides to deliver services to Nova Scotians is a matter of policy; however, the use of external trusts poses certain risks. When government loses direct control and oversight of those funds, there is a heightened risk that the funding is not used for the intended purpose or for the greatest effect. As a result of transferring





control to external trustees, funds in the external trusts are not included in the Province's Consolidated Financial Statements.

1.27 During 2019-20, the Province announced a \$50 million transition fund to provide support to the forestry sector and those whose livelihoods were impacted by the January 31, 2020 deadline to stop pumping effluent into Boat Harbour. The Province placed the funds in the NS Forestry Innovation Transition Trust and indicated this would allow funds to be used over multiple years. A three-member trustee board not controlled by the Province oversees spending decisions. This trust structure meets the requirements of Canadian public sector accounting standards for exclusion from the Province's Consolidated Financial Statements. The trust agreement stipulates how funds can be spent, including eligibility requirements and how any residual funds should be distributed. However, the Province gave up control over the day-to-day decision making on how funds are disbursed. Instead, this power was provided to the three-member trustee board, who accepted the fiduciary responsibility to fulfill the purpose of the trust.

1.28 The Province has established and transferred \$306 million to the following external trusts since the fiscal year 2016-17:

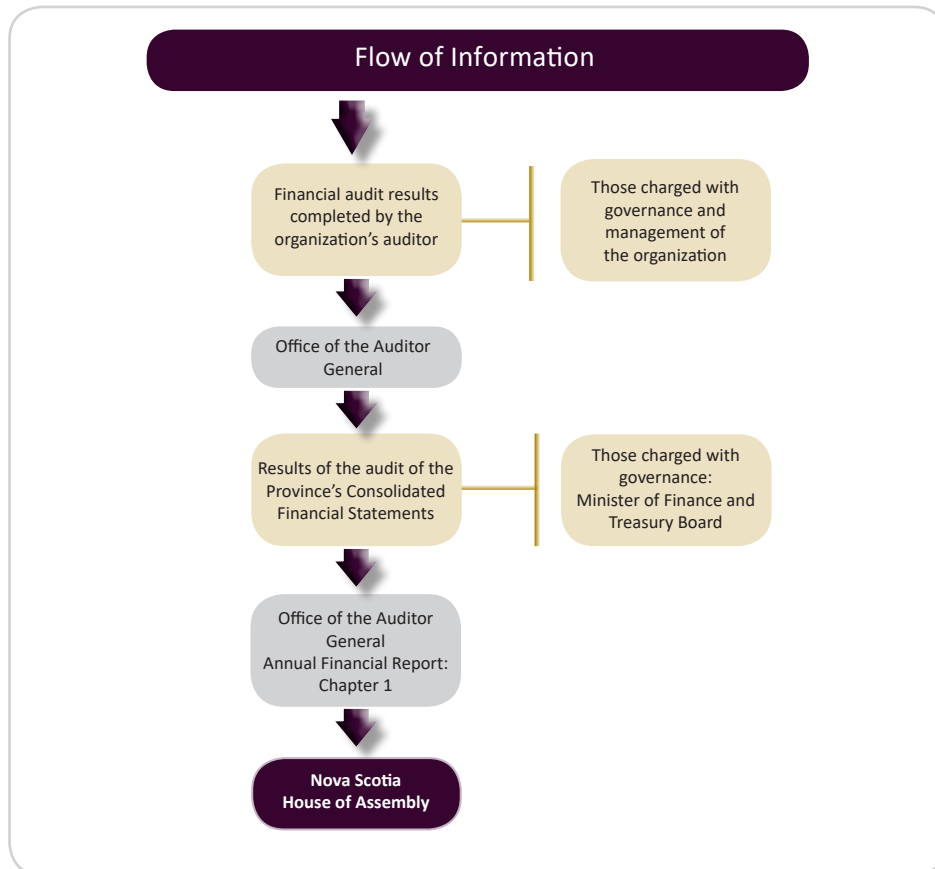
Funding Contributions to External Trusts Since 2016-17		
Trust	Total Contribution	Purpose
Nova Scotia Internet Funding Trust	\$193 million	• Improve access to high-speed internet in rural communities in Nova Scotia
Nova Scotia Forestry Innovation Transition Trust	\$50 million	• Accelerate the production, utilization and sustainability of forestry and biological resources grown in Nova Scotia
Research Nova Scotia Trust	\$45 million	• Expand Nova Scotia's research capacity
Patient Enrolment and Attachment Support Trust	\$13 million	• Encourage physicians to validate a listing of their current patients and accept new patients in need of a family physician
Electronic Medical Records Migration Trust	\$5 million	• Assist NS physicians with migrating their electronic medical records systems
<b>Total</b>	<b>\$306 million</b>	

1.29 We previously reported on the Province's use of external trusts in Chapter 1 of our October 2018 Annual Financial Report and indicated that while these trusts may be outside of the Province's control, this does not prevent our Office from conducting audits of the trusts. We are currently conducting a performance audit on the enhancements to rural internet services being administered by the Nova Scotia Internet Funding Trust. The audit will consider the planning and approach taken by the Province to improve internet services in rural Nova Scotia including details around funding approved to date through the Trust.



### Reporting on Financial Audits

The individual financial audit results of government organizations are reported to the organization's management and those charged with governance. Our office also uses this information to conduct our audit of the Province's Consolidated Financial Statements and in our 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. Lack of detailed procedures, incorporating internal controls for the payments process.	Inappropriate or unauthorized purchases and/or payments may be made.
2. Users on the vendor team have access to create vendors and to process payments with no formal review of vendor master file changes being completed.	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. Procurement technicians do not have a signing authority list to validate signatures on purchasing documents.	Inappropriately authorized purchases may be made.
7. Procurement technicians do not validate: a. The three quotes prior to making a purchase; or b. The alternative procurement circumstances.	Non-compliant purchases may be made; value for money may not be realized when purchasing goods and services.
8. Purchases are being made with inadequate authorization: a. There is no pre-approval or requisition form used for low value procurement; and b. Ministerial approval forms are not being updated regularly.	Unauthorized purchases may be made.
9. No documentation to show that the requesting department has received goods and/or services.	Payments may be made for goods and/or services that have not been received.
<p><b>Management’s response (unaudited)</b></p> <p>The SNS-IS Procurement and Financial Services Steering Committee have been making valuable progress on the significant control weaknesses identified by the OAG. The Steering Committee is in place to ensure the continued progress that each division is making with respect to responses and documentation of detailed processes and procedures.</p> <p>SharePoint sites have been developed as a repository for accessibility and version control. A Purchase Order (PO) policy is in the development phase with an estimated completion date of December 2020. The PO policy will strengthen many areas that were identified as weaknesses in the procurement process from appropriate authorizations to validation of purchases. An option paper has also been developed in response to the identification of the need for supplier evaluations with a Supplier Performance Evaluation Protocol to be launched in 2021.</p>	



Summary of Significant Control Weaknesses – Government Departments  
(Continued)

Department of Service Nova Scotia and Internal Services
<p><b>Management’s response (unaudited) (Continued)</b></p> <p>Position specific SAP access roles have been created for all Operational Accounting staff which has reduced segregation risk significantly. Additionally, work is ongoing with decentralized departments to create their respective customized roles. Nova Scotia Digital Services has been engaged to develop a signing authority tool. The statement of work has been approved and development is expected to commence by December 2020. A Compliance Framework is currently being developed to provide additional control measures and partner accountability. The draft program has been completed and implementation is expected in 2020/2021.</p> <p>Many stakeholders have been engaged throughout these initiatives and will continue to be engaged throughout the process. The magnitude of the change management requirement will require a significant effort; however, we have confidence that the efforts put forth through this committee will support its success and strengthen all internal control weaknesses identified.</p>

Department of Lands and Forestry	
Significant Control Weakness	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>
<p><b>Management’s response (unaudited)</b></p> <p>The 2019-20 Public Accounts included the recognition of a liability of \$47.9 million for remediation related to contamination at two former gold mine sites at Montague and Goldenville. Assessments and remedial actions are being implemented at these two sites. Lands and Forestry is conducting a systematic and comprehensive assessment and evaluation of 69 former mine sites on Crown lands.</p> <p>As noted in the OAG Performance Audit regarding Contaminated Sites released on July 28, 2020, the department has recognized the need for more information on historic mine sites to appropriately assess risks and prioritize work. The OAG <i>“found that work is ongoing to evaluate the 69 historic mine sites to assess potential risks and prioritize site evaluations... Lands and Forestry had defined criteria to assess the mine sites based on the impacts to human health and the environment. Management indicated they had considered national guidance when creating the criteria to assess the sites. This work is important, and it is good that planning is underway.”</i></p>	



## Appendix III

## Summary of Significant Control Weaknesses – Government Organizations

<b>Canadian Sports Centre Atlantic</b>	
<b>Significant Control Weaknesses</b>	<b>Potential Impact</b>
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 internal controls in the financial reporting process.	Increased risk of inappropriate or unauthorized journal entries being recorded.
3. Vacation banks for employees are not being tracked for the time taken or unused amounts.	Time may be recorded incorrectly resulting in an increased risk of fraud or error in payroll expenses.
<b>Management's response (unaudited)</b>	
1. Payments are now electronic – all invoices are sent to the President and Treasurer for review in Dropbox and a summary sheet sent in Excel – summary sheet to be initialed by both signing authorities.	
2. Monthly statements and general ledgers are reviewed by the President and Treasurer.	
3. Vacation is now being tracked in an Excel spreadsheet.	
<b>Harbourside Commercial Park Inc.</b>	
<b>Significant Control Weaknesses</b>	<b>Potential Impact</b>
1. The organization does not retain final signed lease agreements.	Increased risk that lease revenues are uncollectible due to disputes arising from lack of finalized agreements.
2. The organization does not consistently charge HST on sales in accordance with tax legislation.	Non-compliance with tax legislation could lead to increased costs due to interest and penalties.
<b>Management's response (unaudited)</b>	
HCPI's shared drive now contains digital versions of all fully executed lease agreements. Hard copies are also retained on file.	
A process document has been developed to provide guidance to ensure HST is charged on all applicable goods and services in accordance with tax legislation.	
<b>Housing Nova Scotia</b>	
<b>Significant Control Weaknesses</b>	<b>Potential Impact</b>
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.
<b>Management's response (unaudited)</b>	
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 Service Nova Scotia and Internal Services (SNS-IS).	



**Summary of Significant Control Weaknesses – Government Organizations  
(Continued)**

<b>Housing Nova Scotia</b>
<p><b>Management’s response (unaudited) (Continued)</b></p> <p>SNS-IS, in its corporate role, has assumed responsibility and has implemented practices to mitigate the control weaknesses noted. Specifically:</p> <ul style="list-style-type: none"> <li>• All data changes require business confirmation, and SNS-IS management is notified when a business partner requests a data change.</li> <li>• A project underway to upgrade the Oracle Database will improve generic account tracking.</li> <li>• To mitigate this deficiency there is a process in place when moving changes to production. The import is approved by a senior level resource and tracked.</li> </ul> <p>DMAH will continue to communicate any relevant observations and recommendation(s) to SNS-IS.</p>

<b>Izaak Walton Killam Health Centre</b>	
<b>Significant Control Weaknesses</b>	<b>Potential Impact</b>
1. No detailed policies and procedures relating to the preparation of data for actuarial valuation purposes.	Liabilities for employee future benefits may be misstated.
2. No formal asset tracking or disposal process in place.	Increased risk of misappropriation and reduced ability to accurately track and/or value tangible capital assets.
3. Management is not regularly reviewing the amortization method and estimated useful life for its tangible capital assets.	Tangible capital assets could be over- or undervalued.
4. 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.
<p><b>Management’s response (unaudited)</b></p> <p>The IWK continues to action improvements for the identified control weaknesses in this report.</p> <p>Management is detailing formalized actuarial valuation procedures as part of the valuation data requirements for two of its three employee future benefits, with an expected completion date of December 2020.</p> <p>The two capital control deficiencies are expected to be fully addressed in fiscal 2020-21. Management commenced work to address identified tangible capital asset control deficiencies in fiscal 2019-20 but due to the varying types and volumes of assets, related complexities and the global pandemic, the implementation of a fully functioning asset tracking system and amortization review was extended into fiscal 2020-21.</p> <p>Due to complexities with the time recording systems, a full implementation of an organizational-wide time approval process will extend into fiscal 2021-22. A project team has been formed to create and action a time entry and approval policy and process, including monitoring process.</p>	



## Summary of Significant Control Weaknesses – Government Organizations (Continued)

Nova Scotia Education Common Services Bureau	
Significant Control Weakness	Potential Impact
1. User access is not revoked in a timely manner upon termination.	Unauthorized access to information systems and an increased risk of unauthorized or inappropriate payments.
<p><b>Management's response (unaudited)</b></p> <p>The Department of Education and Early Childhood Development (EECD) is committed to ensuring that control weaknesses identified at the NS Education Common Services Bureau are fully addressed in a timely manner. We have addressed the incident identified.</p> <p>EECD is in the process of filling the position of Executive Director at the NS Education Common Services Bureau. This role will have the oversight to ensure processes are followed with fidelity.</p>	

Nova Scotia Health Authority	
Significant Control Weaknesses	Potential Impact
1. Internal control environment is incomplete.	Increased risk of ineffective financial reporting due to a lack of implementation, monitoring, and reporting of internal controls in key areas.
2. 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.
<p><b>Management's response (unaudited)</b></p> <p>NS Health has now developed a roadmap to improve the monitoring and reporting on the internal control environment in collaboration with external expertise. Entity Level Controls (ELCs) and the Risk and Control Matrix for the ELCs were enhanced and documented. Hundreds of Controls were reviewed and this has now resulted in a focused and risk based established set of controls.</p> <p>Management will finish all significant fraud risk processes by March 31, 2021 ensuring a comprehensive fraud risk assessment is complete. Timesheet compliance reporting continues to mature with significant progress in approval rates, non-compliance monitoring and follow up. Year-end processes are being strengthened to minimize risk with time carry forward banks.</p> <p>NS Health's internal audit team continues to assess non-financial reporting areas on a targeted basis to further enhance the overall internal control environment. NS Health's internal controls team and management will work together to achieve targets set out in the internal control roadmap.</p>	



Summary of Significant Control Weaknesses – Government Organizations  
(Continued)

Nova Scotia Innovation Corporation	
Significant Control Weakness	Potential Impact
1. Audited or reviewed financial statements are not provided for all investees in accordance with policy.	Increased risk that decisions are made based on materially misstated statements or out of date financial information.
<p><b>Management's response (unaudited)</b></p> <p>As part of its annual investment valuation process, Innovacorp collects financial statements from its investees. Financial statements are requested from all investees, but companies Innovacorp has limited influence on may lack the motivation to provide them.</p> <p>Innovacorp has the option to legally pursue investees for the information, but does not do so since the associated financial cost and risk to Innovacorp's reputation would outweigh any benefit received.</p> <p>Innovacorp would not buy or sell an investee's securities, or otherwise provide the company with financial support, until the information is provided. In addition, missing financial statements factor into Innovacorp's valuation of the investee, which would be perceived as riskier in absence of financial information and the willingness to provide requested documents.</p> <p>Typically, the process for collecting financial statements, consisting of follow-up calls and emails, ends when the external audit is complete. Beginning with the 2021-22 audit, Innovacorp will continue the collection process post-audit until financial statements are received.</p>	

Sydney Steel Corporation	
Significant Control Weakness	Potential Impact
1. Board of Directors has not met during the fiscal year.	Lack of oversight over the overall control environment and decision making.
<p><b>Management's response (unaudited)</b></p> <p>Sydney Steel Corporation Board meetings will now be held following the scheduled Nova Scotia Lands Board meetings.</p>	