



## Chapter 1: Results of Financial Audit Work

### Why we did this audit:

- To comment on the audit of the Government of Nova Scotia's consolidated financial statements

### Overall comments:

- Clean audit opinion on Government of Nova Scotia's financial statements
- Clean report on government's revenue estimates in Budget 2016-17
- Clean audit opinion on Nova Scotia Health Authority's first set of financial statements
- Tourism Nova Scotia's first set of audited financial statements not done by June 30

### What we found:

- The Nova Scotia Health Authority borrowed from restricted funds for operations
- The Nova Scotia Health Authority agreed with our recommendations and is planning to address them
- Tourism Nova Scotia did not meet reporting requirements of the Finance Act of Nova Scotia
- The number of recommendations from auditors decreased this year
- Qualified audit opinions for Art Gallery of Nova Scotia, Nova Scotia Primary Forest Products Marketing Board, and Harbourside Commercial Park Inc.
- Personal services contracts we examined met financial regulation and policy requirements
- The new hospitality policy was followed
- Government has not fully addressed 3 of 13 previous recommendations:
  - Agencies, boards and commissions not yet required to disclose travel and hospitality expenses
  - The Department of Internal Services is not yet monitoring the hospitality policy
  - The Department of Finance and Treasury Board is not yet monitoring external auditor recommendations for government agencies, boards and commissions



---

# 1 Results of Financial Audit Work

## Chapter Objective

- 1.1 The objective of this chapter is to provide summary comments on the results of the financial audit of government's consolidated financial statements, and of the many entities that are part of the Government of Nova Scotia. These comments are to:
- inform Nova Scotians on how government entities operate;
  - allow the Public Accounts Committee to assess how well government is doing in its management of daily activities; and
  - provide commentary on the importance of financial statements.

### Who we are

- 1.2 The Auditor General is an independent nonpartisan officer of the Legislature, appointed by the House of Assembly for a ten-year term. The current Auditor General, Michael A. Pickup, CPA, CA, began his ten-year term on July 4, 2014. He is responsible to the House for providing independent and objective assessments of the operations of government, the use of public funds, and the integrity of financial reports. The audit work of the Office of the Auditor General helps the House hold the government to account for its use and stewardship of public funds.

### What financial audit work does the Office of the Auditor General do?

- 1.3 The Auditor General Act (the Act) establishes the Auditor General's mandate, responsibilities, and powers. The Act also provides the Office with a mandate to audit all parts of the provincial public sector, including government departments and all agencies, boards, commissions or other bodies responsible to the Crown, such as regional school boards, as well as funding recipients external to the provincial public sector. In addition, other legislation appoints the Auditor General, or a person designated by the Auditor General, as the auditor of an entity's financial statements.
- 1.4 Sections 19 and 20 of the Act stipulate that the Auditor General shall audit the annual consolidated financial statements of the Government; and conduct a review of the estimates of revenue used in the preparation of the budget address of the Minister of Finance and Treasury Board.
- 1.5 The consolidated financial statements of government are an accumulation of the assets, liabilities, revenue, and expenses of all the activities that it controls.



This includes many parts of the provincial public sector. Schedule 10 of the consolidated financial statements shows 81 active entities that include special operating agencies, special purpose funds, governmental units, government business enterprises, and government partnerships. During 2015-16, two new governmental units were created: Nova Scotia Health Authority (NSHA or the Authority) and Tourism Nova Scotia (TNS). Our Office was the first auditor of the newly created NSHA, and a national accounting firm was responsible for the first audit of TNS.

- 1.6 In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by Chartered Professional Accountants (CPA) Canada. We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

### How government's consolidated financial statements add value

- 1.7 The Office of the Auditor General audits the consolidated financial statements of the Government. We provide an audit opinion which lets users know that the financial statements are fairly presented. In addition, as auditors, we make recommendations to improve or strengthen internal controls. Internal controls are important as they may reduce the risk of asset loss, improve the completeness and accuracy of financial information, or ensure that the organization complies with laws and regulations.
- 1.8 The Province's audited consolidated financial statements add value and serve the following purposes.
- Elected officials use financial information to make decisions, including the allocation of scarce resources.
  - Nova Scotians and elected officials use this information to assess government's stewardship over the resources entrusted to it.
  - Other users, such as lenders and credit rating agencies, use financial reports to meet their specific needs.
- 1.9 For the sixteenth year in a row, the Government of Nova Scotia has received an unqualified opinion on the consolidated financial statements. An unqualified opinion, or clean audit opinion, means that an auditor has no significant concerns about the information reported in the financial statements. The reader can place reliance on the numbers and information contained in the consolidated financial statements.
- 1.10 This is an accomplishment that the many governments over the past 16 years should be proud of, and is now an expectation of all Nova Scotians, including elected officials.



- 1.11 The Auditor General also expresses an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance and Treasury Board to the House of Assembly.
- 1.12 We issued a clean report on the 2016-17 Revenue Estimates which concluded that:
- the assumptions used are suitably supported and consistent with the plans of the government and provide a reasonable basis for the 2016-17 revenue estimates;
  - the 2016-17 revenue estimates as presented reflect such assumptions; and
  - the 2016-17 revenue estimates comply with presentation and disclosure standards.
- 1.13 We also indicated that actual results will vary from the information presented and the variance may be significant. We did not express an opinion as to whether the revenue estimates will be achieved. However, the reader can conclude that the revenue estimates found in the 2016-17 budget are worthy of belief, and reasonable, based on the circumstances and facts at that time.

#### 2016 financial audit results

- 1.14 Schedule 10 of the 2016 Public Accounts contains a listing of organizations in the Government of Nova Scotia reporting entity, or entities under the control of government. The comments in this chapter pertain to the Province's active governmental units and government business enterprises, which are a large portion of the entities that are included in the consolidated financial statements.
- 1.15 While the majority of organizations received clean opinions, there were some organizations that did not. The following shows those entities that received a qualified opinion; or the audits were not yet completed.



Nature of Qualified Opinions		
Type of Audit Opinions	Number of Organizations	Comments
Qualified opinions	3	<ul style="list-style-type: none"> <li>• Art Gallery of Nova Scotia – inability to audit the completeness of revenue. Qualification consistent with prior years.</li> <li>• Nova Scotia Primary Forest Products Marketing Board – inability to audit the completeness of revenue. Qualification consistent with prior years.</li> <li>• Harbourside Commercial Park Inc. – first qualification – departure from generally accepted accounting principles. The investment in the subsidiary is accounted for at cost (\$1) but should be fully consolidated.</li> </ul>
Audits not completed as of August 31, 2016	1	<ul style="list-style-type: none"> <li>• Tourism Nova Scotia audit opinion expected to be issued by national accounting firm in fall 2016</li> </ul>

- 1.16 The Finance Act of Nova Scotia clearly states that government business enterprises and governmental units must submit audited financial statements to the Minister of Finance and Treasury Board no later than June 30 in each year.
- 1.17 There are six organizations that did not provide audited financial statements. However, they provided financial information.
- 1.18 The following table summarizes the results of our analysis to determine which remaining entities complied with the reporting requirement of the Finance Act.

Compliance with the Reporting Requirement of the Finance Act	Number of Entities
Complied	40
Did not comply	7

- 1.19 Six of those entities that did not comply provided audited financial statements by mid-July. However, Tourism Nova Scotia's audited financial statements were not yet available in late September 2016.
- 1.20 It is important that financial information be reported on a timely basis. Late reporting can impact the preparation of the public accounts and the audit of government's consolidated financial statements. In addition, the Finance Act is a key piece of legislation and organizations should ensure they comply with this Act.



**Status of recommendations reported in the November 2015 Report of the Auditor General to the House of Assembly – Financial**

- 1.21 In 2015, we made several recommendations to improve financial processes and controls in government. Appendix 1 shows the ten recommendations which have been addressed. We are satisfied that management has taken appropriate actions to address these recommendations.
- 1.22 Listed below are the three remaining recommendations that we wish to bring to government’s attention as they have not been fully completed.

2015 Recommendation	Status
<p>2.11 The Department of Internal Services should put in place a government hospitality policy that captures modern public sector expectations, and monitor that this policy is being met.</p>	<p><b>Complete</b> – A hospitality policy was implemented effective March 1, 2016. We carried out limited audit tests on hospitality expenses since March 1, 2016 and observed that the policy was being followed.</p> <p><b>Not complete</b> – In accordance with the new hospitality policy, the Department of Internal Services is responsible to monitor hospitality expenses for appropriate usage and consistency with policy directives. We have been advised that the Department of Internal Services is seeking the assistance of the Internal Audit Centre in establishing a monitoring process.</p>
<p>2.12 To enhance openness and transparency, the Department of Finance and Treasury Board should require senior management of government departments, agencies, boards and commissions, to publicly disclose travel and hospitality claims.</p>	<p><b>Complete</b> – We observed that since April 1, 2016, the Executive Council Office website contains the travel and hospitality expenses of Executive Assistants, Ministers and Senior Officials. This is an important accountability mechanism as Nova Scotians and members of the Legislature are able to determine whether or not expenses disclosed are reasonable.</p> <p><b>Not complete</b> – The Department of Finance and Treasury Board is in the process of issuing a directive to agencies, boards and commissions requiring senior officials to disclose travel and hospitality. Management indicated that this directive should be issued by the end of 2016, with a requirement to disclose these expenses since April 1, 2016. We will follow up on this aspect of our recommendation in 2017.</p>
<p>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.</p>	<p><b>Not complete</b> – The Department of Finance and Treasury Board is reviewing options and ways to capture all the recommendations. We will follow up this recommendation in 2017. As discussed later in the chapter, there are six entities that have auditor recommendations that are more than five years old. It is important that external monitoring take place to ensure these entities are addressing auditor recommendations.</p>



## Audits of new entities in 2015-16 – Nova Scotia Health Authority and Tourism Nova Scotia

- 1.23 *Nova Scotia Health Authority* – The Nova Scotia Health Authority was created on April 1, 2015 and amalgamated the nine district health authorities that existed prior to this date. As indicated in its 2015-16 Business Plan, the Authority was created to allow the health system to work together in a way that will achieve excellence in health, healing and learning. One of the strategic priorities of NSHA was to ensure a successful consolidation of the nine health authorities into one with the appropriate governance structures in place.
- 1.24 The Office was responsible for the audit of the NSHA and we issued an unqualified audit opinion on the first year of operations. In addition, NSHA was in compliance with Section 36(4) of the Health Authorities Act – the requirement to have audited financial statements by June 30, 2016.
- 1.25 We did however make the following recommendations to management.
- Review, update or develop policies as appropriate to reflect the new entity and the changing operating environment. These include, but are not limited to: travel, hospitality, inventory management and procurement. In addition, these policies should be communicated to staff on a timely basis.
  - Ensure restricted funds are not borrowed for operational requirements. We observed that management used \$7 million for operations even though the funds were restricted for use and the Department of Health and Wellness owed the Authority over \$70 million.
  - Review the overall control environment and determine the best control to address deficiencies relating to journal entry postings, changes to human resource information, and the use of modifiable electronic files.
- 1.26 Management agreed with the observations and is planning to address them.
- 1.27 *Tourism Nova Scotia* – Tourism Nova Scotia is a Crown Corporation created on April 1, 2015. The objectives of the corporation are to achieve tourism growth in the province; develop and implement a long-term strategy for tourism; and communicate and collaborate with communities, private industry, and the tourism industry in the province.
- 1.28 The Tourism Nova Scotia Act appoints the Auditor General, or a person designated by the Auditor General, to audit the accounts of Tourism Nova Scotia. A national accounting firm was designated to complete this first-time audit.



- 1.29 In accordance with Section 19 of the Tourism Nova Scotia Act, the corporation shall prepare and submit financial statements to the Minister of Business, together with a report concerning the work of the corporation, not later than June 30. As of the end of September 2016, the audited financial statements of the corporation were not available. Management at Tourism Nova Scotia advised that the financial statements will be approved by the Board of Directors in fall 2016, at which time the results of the audit and the compensation disclosure information will be communicated on their website.

#### Additional comment arising from the audit of the consolidated financial statements

- 1.30 Information reported in the financial statements reflects past transactions and events. As a result, representations often require estimates to be made in anticipation of future transactions and events and include measurements that may be approximations. There is some uncertainty in the amounts recorded because actual results may differ from the assumptions used.
- 1.31 Post-employment benefits (not pensions) of approximately \$2 billion have been recorded in government's consolidated financial statements. The majority of the post-employment benefits include retirement allowances, retirement health plans, workers' compensation, and accumulated sick leave. There are many assumptions and estimates made when calculating the amount of these post-employment liabilities.
- 1.32 One key assumption used in 2015-16 was in relation to the retirement allowance plan. Effective April 1, 2015, the Province discontinued its retirement allowance plan for non-bargaining unit staff and expected the benefit change for unionized staff to be ratified in the near future during ongoing contract negotiations. Note 5 of the consolidated financial statements describes this assumption and the impact on the liability for post-employment benefits.
- 1.33 As government used this event in the calculation of its post-employment benefit, the Department of Finance and Treasury Board issued instructions to organizations in the government's reporting entity to ensure that the same assumption was applied when those entities were estimating their retirement allowances. All entities, except for Nova Scotia Business Inc. and Housing Nova Scotia, followed the instructions issued by the Department of Finance and Treasury Board. These two entities had little impact on the calculation of government's overall liability for post-employment benefits.

#### Entities with internal control observations

- 1.34 We reviewed communications from external auditors and recommendations made by our Office relating to internal control deficiencies that were brought to the various organizations' attention. These observations do





not affect the audit opinions given on the financial statements; however, they are recommendations made to improve the applicable organization's control environment. Examples of these types of observations could be a lack of documentation to support policies and procedures; no approval over processing of payroll or payment transactions; or a lack of segregation of duties where one individual can initiate, process, and pay transactions.

- 1.35 The following table illustrates the entities that had observations and recommendations made to senior management of the governmental units and government business enterprises.

Number of recommendations made	2015-16	2014-15
Entities with more than 5 recommendations	3	5
Entities with 1 to 4 recommendations	10	17

### Types of internal control observations and recommendations

- 1.36 The overall number of recommendations as a result of the various audits has significantly decreased. The area that has most improved is in the information technology controls area, accounting for about 86% of the decrease. However, overall internal control weaknesses still account for over half of the observations reported. It is important that internal control weaknesses are improved as internal controls help to minimize business and financial reporting risks.

Type	2015-16	2014-15*
Internal Controls	34	38
Information Technology	6	30
Total	40	68

\* Includes nine observations that relate to the nine former district health authorities and were not applicable to the new Nova Scotia Health Authority

- 1.37 While there has been improvement since last year in the number of recommendations made, we do note that six entities have observations that have been consistently reported for over five years. Deficiencies that remain outstanding for multiple years can hinder the ability of an entity to achieve its objectives. As we have stressed in previous reports, when audit observations are not addressed timely, management and boards of directors may not be fully meeting their oversight responsibilities related to internal controls and external financial reporting.



1.38 The six entities and the related observations are shown in the following table.

Entity	Observation since 2009
Cape Breton Regional School Board	Weak controls regarding computer access controls and system backup
Conseil scolaire acadien provincial	Need to continue to supervise common controls and procedures at each school over school-based funds
Izaak Walton Killam Health Centre	Inconsistent review of attendance data and payroll reports
Resource Recovery Fund Board Incorporated	Improper accounting treatment – reporting of HST
Sherbrooke Restoration Commission	Lack of segregation of duties over posting of journal entries and no formalized inventory controls
Tri-County Regional School Board	Lack of segregation of duties over posting of journal entries

### Executive compensation, vacation, travel, and hospitality expenses

- 1.39 As part of our audit of the Province's March 31, 2016 consolidated financial statements, we performed limited financial audit work on executive compensation, vacation, travel, and hospitality expenses of senior executives. The items examined were properly authorized and in compliance with government policy.
- 1.40 Our testing of these expenses was not a separate performance audit and was not an assessment of the value for money of these expenses. We do this work as it is likely of interest to users of the financial statements. As legislative auditors, we believe these expenses have significant potential for negatively impacting the reputation of government, and are therefore included as part of our financial audit.
- 1.41 We also inquired as to the status of last year's audit recommendations and our comments are found earlier in this chapter.
- 1.42 In addition, we performed limited work on personal services contracts to determine if they were in compliance with regulation and policy, and properly disclosed in the public accounts. The sample of personal services contracts tested were properly authorized and in compliance with regulation and policy. All personal services contracts on the listing provided to us were properly disclosed in the public accounts or financial statements of applicable entities.



## Appendix I

### 2015 recommendations issued to the Department of Finance and Treasury Board

Recommendation	Status
2.1 Taxation and Federal Fiscal Relations (a division of the Department of Finance and Treasury Board) should review all tax model assumptions on a periodic basis.	Complete
2.2 The Department of Energy should develop a process to review inputs and calculations used in the models to estimate petroleum royalties.	Complete
2.3 The Department of Transportation and Infrastructure Renewal should re-measure the liability for the estimated future costs for remediation of the tar ponds and obtain an update to the consultant's report used to measure the liability.	Complete
2.4 Government Accounting (a division of the Department of Finance and Treasury Board) should provide additional training to departmental financial staff on accounting for and disclosing contingencies and contractual obligations. In addition, Government Accounting should review schedules submitted for significant and unexpected variances and investigate any unexpected variances.	Complete
2.5 SAP Service Management (a division of the Department of Internal Services) should address the exceptions identified in the CSAE 3416 report.	Complete
2.6 Government Accounting (a division of the Department of Finance and Treasury Board) should assist departments in determining how to identify and assess contaminated site liabilities, including establishing roles and responsibilities.	Complete
2.7 Taxation and Federal Fiscal Relations (a division of the Department of Finance and Treasury Board) should update process documentation to include the procedure followed to approve changes made to tax revenue models.	Complete
2.8 Taxation and Federal Fiscal Relations (a division of the Department of Finance and Treasury Board) should demonstrate that changes made in determining taxation revenue improve financial reporting. Also, Government Accounting Division staff should determine whether changes in estimating tax revenues will impact the government's consolidated financial statements.	Complete
2.9 The Department of Finance and Treasury Board should have timeframes for departments to complete their documentation of controls and ongoing monitoring.	Complete
2.10 The Department of Finance and Treasury Board should include monitoring of internal controls in the Internal Controls over Financial Reporting project.	Complete