

# Chapter 1

## Financial Audit Work Results

### Key Messages

- Nova Scotians can rely on government's financial information including that of the Nova Scotia Health Authority and the IWK Health Centre
- 2019 is the first year our Auditor's Report of the Consolidated Financial Statements of the Province of Nova Scotia draws attention to the accounting for contaminated sites
- While financial statements are reliable and many processes work well, significant control weaknesses need to be fixed at two government departments and four government organizations
- Key matters that required additional attention were contaminated sites liabilities, pension and retirement obligations, tax revenues, and purchasing cards

### Details Around Key Messages

#### **Nova Scotians can rely on the financial statements of both the Province and its organizations**

- For the 19th year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
- The 2019 Auditor's Report of the Consolidated Financial Statements of the Province emphasizes the uncertainty around future remediation costs of the Province's contaminated sites and notes the accounting meets standards
- Revenues in the Province's 2019-20 budget were reasonable and fairly presented
- Most government organizations, such as the Nova Scotia Health Authority and the IWK Health Centre, received clean opinions on their 2018-19 financial statements

#### **Significant control weaknesses at two departments need to be fixed to improve the government's financial controls**

- Department of Service Nova Scotia and Internal Services:
  - purchasing goods and services without pre-approval, risking achieving value-for-money
  - not monitoring user access to the Province's accounting system, risking unwanted access
- Department of Lands and Forestry:
  - not adequately assessing the extent of contamination at the Province's abandoned mine sites, risking unknown financial exposure and unaddressed human health concerns

#### **Significant control weaknesses at four government organizations need to be fixed to improve financial controls**

- Housing Nova Scotia: poor restrictions and monitoring of user access to system
- IWK Health Centre: poor segregation of duties in finance and procurement, poor monitoring and tracking of capital assets
- Nova Scotia Gaming Corporation: no process to implement accounting-related recommendations of external advisors
- Nova Scotia Health Authority: incomplete internal control environment, poor monitoring of capital assets, and inconsistent review of employee timesheets

#### **Previously identified significant control weaknesses were not fully addressed**

- Cape Breton-Victoria Regional Centre for Education: weak controls over school-based funds
- Halifax-Dartmouth Bridge Commission: lack of segregation of duties within its finance department
- IWK Health Centre: poor restrictions and monitoring of user access to its billing system
- Strait Regional Centre for Education: weak controls over school-based funds and lack of segregation of duties for accounting personnel

#### **Significant control weaknesses previously reported were addressed in 2018-19**

- Halifax-Dartmouth Bridge Commission: addressed lack of segregation of duties within key IT-related functions
- IWK Health Centre: addressed no reconciliation of billings relating to out-of-province patients



**Key matters requiring additional attention during the audit of the Province’s Consolidated Financial Statements were accounted for correctly**

<b>Key Matter</b>	<b>Resolution</b>
<ul style="list-style-type: none"> <li>• \$87 million increase in contaminated sites liabilities relating to Boat Harbour, abandoned mines, and other contaminated sites (2019 - \$372 million; 2018 - \$285 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Accounted for correctly as estimates based on Government’s assumptions</li> <li>• Disclosed in the financial statements as subject to change and having significant measurement uncertainty as the Province continues to refine its cleanup plans</li> </ul>
<ul style="list-style-type: none"> <li>• \$2.6 billion employee future benefit liability; \$378 million paid out for retirement allowances</li> </ul>	<ul style="list-style-type: none"> <li>• Accounted for correctly and properly disclosed</li> </ul>
<ul style="list-style-type: none"> <li>• \$5.1 billion in tax revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Accounted for correctly as estimates based on Government’s assumptions</li> </ul>
<ul style="list-style-type: none"> <li>• Purchasing cards (PCards)</li> </ul>	<ul style="list-style-type: none"> <li>• Weak controls and transactions with missing documentation noted</li> <li>• No impact on audit opinion</li> </ul>

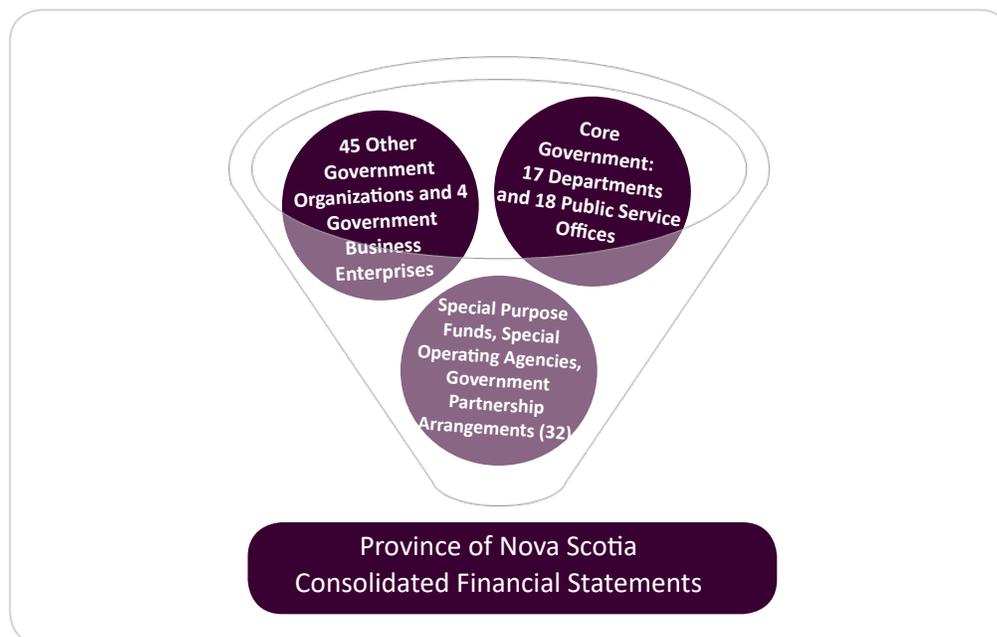
**Questions Nova Scotians may want to ask:**

1. How and when will the Department of Service Nova Scotia and Internal Services fix the significant weaknesses over departmental purchasing and who is holding the Department accountable for fixing these weaknesses?
2. Why did the Department of Lands and Forestry not have a detailed plan in place to conduct environmental assessments of abandoned mine sites?
3. Why are there multiple new significant control weaknesses at Housing Nova Scotia, IWK Health Centre, Nova Scotia Gaming Corporation, and Nova Scotia Health Authority in 2018-19 and who is holding these organizations accountable for fixing these weaknesses?
4. Do the significant control weaknesses identified at the Department of Service Nova Scotia and Internal Services, Housing Nova Scotia, IWK Health Centre, Nova Scotia Gaming Corporation, and the Nova Scotia Health Authority increase the risk of fraud and error?
5. Why are there repeating weaknesses in internal controls at Cape Breton-Victoria Regional Centre for Education, Halifax-Dartmouth Bridge Commission, IWK Health Centre, and Strait Regional Centre for Education and who is holding these organizations accountable for fixing these weaknesses?
6. As more information becomes available, how will the accounting estimates for the cleanup of Boat Harbour and the abandoned mine sites impact the financial position of the Province?

# 1 Financial Audit Work Results

## Reporting on Financial Audit Engagements

- 1.1 The objective of this chapter is to provide summary comments 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 formally rely, through auditing standards, on private accounting firms to conduct audits on the majority of government organizations. Our Office conducts the audit of the Province's Consolidated Financial Statements, as well as the audits of the following government organizations:



- Nova Scotia Health Authority
- Izaak Walton Killam Health Centre (IWK Health Centre)
- Nova Scotia Legal Aid Commission
- House of Assembly

1.5 As part of our audit of the Consolidated Financial Statements of the Province, we compile the results of 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 provides Nova Scotians with financial information they can rely on

1.6 For the 19th 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 (see Appendix II). 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 19 years should be proud of, and we believe that receiving a clean opinion is a reasonable expectation of Nova Scotians, including elected officials and other users of the Province’s 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 of them 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.

 Emphasis of matter included in the Independent Auditor’s Report of the Province’s Consolidated Financial Statements for the first time

1.8 This is the first year our Independent Auditor’s Report of the Province’s Consolidated Financial Statements emphasized a specific financial matter facing the Province. In our Independent Auditor’s Report, we emphasized the accounting of costs related to cleaning up the Province’s contaminated sites because of the nature and uncertainty of these costs, as well as the current and potential future financial significance to the Province.

1.9 The following is the emphasis of matter included in our 2018-19 Independent Auditor’s Report of the Province’s Consolidated Financial Statements.



***Emphasis of Matter – Accounting for Contaminated Sites***

I draw attention to Note 1 and Note 10 of the March 31, 2019 consolidated financial statements of the Province of Nova Scotia which describe the accounting policy and the nature and details of the amounts recorded in the consolidated financial statements related to contaminated sites. This note outlines how the Province complies with accounting standards for environmental costs based on the key requirements of Canadian public sector accounting standards. This means that amounts are only recorded when a liability meets recognition criteria and can be reliably measured.

In the future, as additional environmental studies are completed, it may be possible that the Province will need to account for additional liabilities related to its contaminated sites if it determines that contamination exceeds an environmental standard, a reasonable estimate of the related remediation costs can be made, and it is expected future economic benefits will be given up to remediate the sites.

The March 31, 2019 consolidated financial statements of the Province of Nova Scotia fairly present the contaminated sites liability in accordance with Canadian public sector accounting standards.

My opinion is not modified in respect of this matter.

1.10 The 2019-20 Revenue Estimates used in the preparation of the annual budget address of the Minister of Finance and Treasury Board of Nova Scotia to the House of Assembly of Nova Scotia tabled on March 26, 2019 were reasonable and presented fairly, in accordance with the following criteria:

- the 2019-20 Revenue Estimates of the Province were prepared on a basis consistent with the accounting policies used by Government in its consolidated financial statements which are prepared in accordance with Canadian public sector accounting standards; and
- the assumptions underlying the 2019-20 Revenue Estimates reflected a reasonable set of economic conditions and Government's planned courses of action for fiscal year 2019-20.



Significant control weaknesses identified at the Department of Service Nova Scotia and Internal Services, the Department of Lands and Forestry, and government organizations

1.11 We identified significant weaknesses in internal controls during our audit of the Province's financial statements at government departments and organizations. Although these significant control weaknesses did not materially misstate the Province's or the organizations' financial statements, these observations should be addressed in a timely manner to improve the financial management control environment.

1.12 A significant weakness in internal controls is a weakness or combination of weaknesses that are important enough to be reported to an organization's audit committee or those charged with governance. The presence of significant control weaknesses does not necessarily mean that an organization's financial statements are not fairly stated.



Departmental purchases occur without appropriate pre-approval and review

1.13 During our audit of the Province’s 2018-19 financial statements, we identified significant weaknesses in how the Province purchases goods and services. The Department of Service Nova Scotia and Internal Services (SNS-IS) oversees all departmental purchases and is therefore required to ensure that appropriate financial controls are in place over these activities. A well-designed purchasing process should ensure:

- appropriate pre-approvals are obtained before making purchases,
- applicable procurement processes are followed (i.e., obtaining quotes, issuing requests for proposals, etc.), and
- receipt of goods and services and invoice totals are confirmed before payment is made.

1.14 As a result of its weaknesses in internal controls as detailed in the table below, SNS-IS may not be able to prevent and detect unauthorized or fraudulent payments and ensure departmental purchases achieve value-for-money.

<b>Department of Service Nova Scotia and Internal Services</b>	
<b>Purchases of Goods and Services Significant Control Weakness</b>	<b>Impact</b>
<ul style="list-style-type: none"> <li>• SNS-IS does not have a set of complete and adequate policies and procedures</li> <li>• Signing authority is not adequately confirmed during the validation of invoices</li> <li>• There is no pre-approval process for goods and services purchased under \$5,000, and in most instances, the related purchase order was created after the invoice was received in order to facilitate payment</li> <li>• Controls are ineffective in identifying the splitting of purchases in order to circumvent approval thresholds</li> <li>• Purchase orders are created without adequate validation of alternative procurement forms, in the absence of the required quotes based on value, and using expired ministerial approvals</li> <li>• Departments are not required to document the receipt of goods or services</li> </ul>	<p>The Province is unable to adequately ensure that departmental purchases are authorized, appropriate, and achieve value-for-money at dollar amounts to satisfy managements’ objectives. This did not impact the material fairness of the Province’s Consolidated Financial Statements.</p>



Department of Service Nova Scotia and Internal Services	
Purchases of Goods and Services Significant Control Weakness	Impact
<p><b>Management's Response (unaudited)</b>  <i>SNS-IS Procurement Services and Financial Services Delivery has established a steering committee with terms of reference and an ongoing workplan that reflects the OAG recommendations. This steering committee will ensure that internal controls, process, procedures, policy, and cross over points between the two groups are addressed.</i></p> <p><i>The Steering Committee has prioritized five items for immediate attention:</i></p> <ol style="list-style-type: none"> <li><i>1. Creation of Standard Operating Procedures (SOPs) and policies that address the need for internal control and mitigate associated risk;</i></li> <li><i>2. Creation of a Purchase Order Policy;</i></li> <li><i>3. Creation of a Compliance Framework and Program;</i></li> <li><i>4. Create and maintain ongoing signing authority matrices;</i></li> <li><i>5. Review all existing policies to reflect the development of the new SOPs and procedures and ensure they reflect the proper internal controls and mitigate risk.</i></li> </ol> <p><i>The Steering Committee has committed to develop a plan to address the five priorities by December 2019 with an identified implementation schedule. Once the plan has been developed, it will be shared with the Office of the Auditor General to get feedback on whether it addresses the recommendations before the creation and implementation phase starts. Procurement has identified a projected timeline of Fall-Winter 2019-2020 for the Compliance Framework. This will be the type of risk that will be monitored as part of their compliance process. Until such time, Operational Accounting will complete a monthly analysis of this risk to ensure policy and procedures are followed.</i></p>	



Weaknesses in payments processing and access to the Province's accounting system

1.15 The Department of Service Nova Scotia and Internal Services processes payments on behalf of all government departments. We identified significant weaknesses over this process.

Department of Service Nova Scotia and Internal Services	
Payment Processing and User Access Significant Control Weakness	Impact
<ul style="list-style-type: none"> <li>The Department has not developed and implemented formal, written policies and procedures for processing vendor payments</li> </ul>	Increased risk of errors as well as inappropriate or unauthorized transactions
<ul style="list-style-type: none"> <li>User access to the Province's accounting system (SAP) is not reviewed regularly</li> </ul>	Increased risk of inappropriate access and use of the Province's accounting system
<p><b>Management's Response (unaudited)</b>  <i>Operational Accounting is committed to continued process improvements which include updating existing or creating new written procedures on operational expense and payable processing.</i></p> <p><i>Operational Accounting is currently reviewing user access to the accounting system. In SAP, roles are created for specific functionality and access, where an individual may have multiple roles or multiple individual users may have access to the same role to carry out activities in the system. Changes are required to align roles to specific positions. The new roles will be Operational Accounting position-specific, and managers are currently working to define position-specific roles. Once the role is defined, a ticket is sent to IBM for role creation. The projected completion is January 2020.</i></p> <p><i>Once this project is complete, plans are to evaluate decentralized program departments who use roles that fall under the approval of Operational Accounting. Department-specific roles will be based on their respective needs with the goal of standardization and supporting government's shared services initiative.</i></p>	



➔ Ineffective monitoring and reporting of abandoned mine sites

1.16 When we tested the contaminated sites liability, we identified a significant control weakness relating to the Department of Lands and Forestry’s financial reporting of abandoned mine sites. As a result of this weakness, our Office is now conducting a performance audit in this area with planned reporting in spring 2020.

Department of Lands and Forestry	
Financial Reporting of Abandoned Mine Sites Significant Control Weakness	Impact
The Department of Lands and Forestry has not completed sufficient site investigations on all abandoned mine sites identified with potential areas of contamination.	<p>The Department cannot effectively assess the Province’s financial exposure relating to potential future remediation and monitoring costs associated with abandoned mine sites.</p> <p>Without appropriate analysis, 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>  <i>The Department is currently working with Nova Scotia Lands and the Department of Energy and Mines to develop a process to address former mine sites, including risk ranking and identifying priorities for site evaluation. The Department of Energy and Mines has assigned a Mining Engineer to Nova Scotia Lands to assist with these efforts. Four abandoned mine sites (2 gold and 2 coal) are currently identified as priorities for further testing and evaluation. The Department continues to work with Nova Scotia Lands and Energy and Mines on developing an overall strategy and will continue to ensure that as the presence and extent of contamination on specific sites are clarified through assessments, the associated financial exposure will be appropriately reported.</i></p>	

➔ 15 new significant control weaknesses identified across four government organizations

1.17 In 2018-19, most government organizations received clean opinions on their financial statements. Four organizations with clean opinions had new significant control weaknesses. Because significant control weaknesses diminish an organization’s ability to effectively manage financial operations beyond external financial reporting, having 15 new significant control weaknesses in four government organizations is a serious matter.

1.18 The table below shows the number of new significant control weaknesses each organization had in 2018-19 and Appendix III provides details, as well as management’s responses.

Number of New Significant Control Weaknesses at Government Organizations in 2018-19	
Government Organization	Number of Significant Control Weaknesses
Housing Nova Scotia	3
Izaak Walton Killam Health Centre	6
Nova Scotia Gaming Corporation	1
Nova Scotia Health Authority	5



➔ Previously identified significant control weaknesses not fully addressed

- 1.19 Significant control weaknesses identified in previous years at four government organizations were not fully addressed in 2018-19. These government organizations did however make some progress toward addressing these significant control weaknesses and their auditors considered these weaknesses to no longer be significant as at March 31, 2019.

Control Weaknesses No Longer Deemed Significant in 2018-19	
Government Organization	Control Weakness
Cape Breton-Victoria Regional Centre for Education	<ul style="list-style-type: none"> <li>Weak controls over school-based funds</li> </ul>
Halifax-Dartmouth Bridge Commission	<ul style="list-style-type: none"> <li>Lack of segregation of duties within its finance management</li> </ul>
Izaak Walton Killam Health Centre	<ul style="list-style-type: none"> <li>Poor restrictions and monitoring of user access to its billing system</li> </ul>
Strait Regional Centre for Education	<ul style="list-style-type: none"> <li>Weak controls over school-based funds</li> <li>Lack of segregation of duties for accounting personnel</li> </ul>

- 1.20 In addition, we noted that since 2015-16, Harbourside Commercial Park Inc. has been made aware by their auditors of a weakness relating to its capital assets. Internal control weaknesses that remain unaddressed over multiple years can diminish an organization's financial management control environment; therefore, it is important for Harbourside Commercial Park Inc. to address this control weakness.

➔ Previously identified significant control weaknesses addressed by organizations

- 1.21 Last year, we reported significant control weaknesses at Halifax-Dartmouth Bridge Commission and the Izaak Walton Killam Health Centre. During the year, these organizations addressed these significant control weaknesses and they are no longer issues.

Significant Control Weaknesses Addressed in 2018-19	
Government Organization	Significant Control Weakness
Halifax-Dartmouth Bridge Commission	<ul style="list-style-type: none"> <li>Addressed lack of segregation of duties within key IT-related functions</li> </ul>
Izaak Walton Killam Health Centre	<ul style="list-style-type: none"> <li>Addressed no reconciliation of billings relating to out-of-province patients</li> </ul>

### Key Matters from 2019 Audits Requiring our Attention

- 1.22 During the year, we identified certain matters that required extra attention due to the nature of the expense or the financial significance and the degree to which management had to use professional judgement. While the matters required additional attention, we are comfortable they were appropriately



accounted for in the Province's Consolidated Financial Statements. The following are the key areas we addressed during the 2018-19 audit of the Province's Consolidated Financial Statements.

- Liability for contaminated sites (\$372 million)
- Liability for pension and retirement obligations (\$2.6 billion)
- Payout of long service awards (\$378 million)
- Estimate of tax revenues (\$5.1 billion)
- Departmental use of purchasing cards

 \$87 million increase in contaminated sites liability

1.23 A contaminated site is a site with contaminants that exceed an environmental standard set out in legislation that may negatively impact human and ecological health. Canadian public sector accounting standards require the Province to recognize a liability for contaminated sites in its financial statements when:

- contamination exceeds an environmental standard,
- the Province is directly responsible or accepts responsibility to clean up the site,
- the Province expects to incur costs to remediate the site, and
- a reasonable estimate of the remediation costs can be made.

1.24 At March 31, 2019, the Province identified and monitored 127 contaminated sites. Of these 127 sites, 39 were identified as sites where environmental cleanup was likely, or already underway, and met the criteria for recognition under Canadian public sector accounting standards. As a result, a liability of \$372 million for these 39 sites was included in the 2018-19 consolidated financial statements. This liability is management's best estimate as at March 31, 2019, which reflects the future expenditures required to complete the necessary environmental remediation based on information currently available. For context, five years ago, the environmental liability recorded by the Province was \$107 million.

1.25 The following table shows the contaminated sites that contributed to the \$87 million increase in the Province's contaminated sites liability this year.



Contaminated Sites Liabilities			
Contaminated Site	March 31, 2019	March 31, 2018	Reason for Increase
Boat Harbour	\$230 million	\$205 million	<ul style="list-style-type: none"> <li>Estimate updated based on new consultant report</li> </ul>
Abandoned Mine Sites	\$48 million	-	<ul style="list-style-type: none"> <li>New consultant reports estimated remediation costs at two former gold mine sites:               <ul style="list-style-type: none"> <li>Goldenville (\$23.5 million)</li> <li>Montague (\$24.5 million)</li> </ul> </li> </ul>
Other	\$94 million	\$80 million	<ul style="list-style-type: none"> <li>Increase primarily relates to the required cleanup of the Harriettsfield salvage site to restore soil and improve groundwater</li> </ul>
<b>Total</b>	<b>\$372 million</b>	<b>\$285 million</b>	

- 1.26 The Province also identified an additional 63 abandoned mine sites for which no liability for remediation has been recorded, either because the site has minimal risk of requiring future remediation or the extent of the contamination and possible remediation activities is unknown.
- 1.27 To ensure that the liability for contaminated sites was appropriately measured and recorded, we reviewed the Province's plans for all sites. We also reviewed assessments and work performed, along with all the information available on each site, and met with various stakeholders within Government, including the Departments of Lands and Forestry, Environment, and Energy and Mines.
- 1.28 Relevant and significant information on environmental assessments and consultant reports was appropriately incorporated into the Province's accounting for contaminated sites. However, as additional work is performed and more information becomes available, the Province may need to account for additional liabilities related to these sites. As well, the Province appropriately disclosed in the financial statements that the liability for contaminated sites is subject to measurement uncertainty and may differ significantly as the Province continues to refine its cleanup plans. We concluded that management appropriately determined the estimate of future environmental cleanup costs relating to contaminated sites based on the information currently available.
- 1.29 The Province's estimate of the liability for cleaning up Boat Harbour at March 31, 2019 is \$230 million, an increase of \$25 million over the prior year. In 2018-19, the Province increased its liability for the Boat Harbour cleanup based on a new cost estimate determined by an external consultant. The following table shows that the Boat Harbour liability increased substantially over the last 5 years:



Boat Harbour Liability from 2014-2019 (\$ millions)						
	2014	2015	2016	2017	2018	2019
Liability	\$20	\$52	\$88	\$130	\$205	\$230

1.30 After reviewing the consultant's new report, along with other supporting documentation, we concluded that the estimated environmental liability for Boat Harbour represented management's best estimate at that time.

1.31 On May 23, 2019, the federal government announced funding for the Boat Harbour Remediation Project. The maximum funding for this project will be 50 percent of total eligible costs up to \$100 million. The Province appropriately disclosed this funding announcement in its 2018-19 consolidated financial statements.



\$2.6 billion in pension and retirement obligations accounted for correctly and properly disclosed

1.32 The Province reported a \$2.6 billion liability relating to pension, retirement, and other employee future benefits as at March 31, 2019. Examples of other future employee benefits include allowance payments to retiring employees and health and dental costs for retired government employees.

1.33 The valuation of the Province's liability related to pension, retirement, and other employee future benefits is complex and requires the expertise of an actuary. These actuarial valuations include the use of assumptions based on the Government's current best estimates of costs that will be incurred in the future.

1.34 Our audit procedures in 2019 included:

- obtaining an understanding of each benefit plan and the methodology for valuing liabilities,
- confirming the competence, capability, and objectivity of the actuary performing the valuations,
- testing the underlying source data used by the actuaries, and
- evaluating key assumptions.

1.35 Based on the work performed, we concluded that pension, retirement, and other employee future benefits were fairly stated and disclosed appropriately in accordance with Canadian public sector accounting standards.



➤ The Province paid public sector employees \$378 million in retirement allowance entitlements in 2018-19

1.36 To reduce the Province's future obligation to pay employees an allowance at retirement, the Government provided eligible employees within the public service the option to receive a one-time immediate payout of their retiring allowance. During 2018-19, the Province paid out \$378 million in retirement allowance entitlements to healthcare workers, regional centres for education employees, and other public sector employees.

1.37 The following table details the amounts paid out.

2019 Retirement Allowance Payouts	
Eligible Employees	Eligible Payout Amount
Healthcare workers	\$168 million
Regional centres for education employees	\$86 million
Other public sector employees	\$124 million
<b>Total</b>	<b>\$378 million</b>

1.38 As part of our 2019 audit procedures, we performed detailed testing of the long-service retirement allowance payout amounts. Testing included recalculating eligible years of service and verifying salary levels used in the payout calculations.

1.39 Based on the work performed, we concluded that long-service retirement allowance payouts were accurately recorded and appropriately disclosed in accordance with Canadian public sector accounting standards.

➤ Significant uncertainty in estimating tax revenues of \$5.1 billion

1.40 The largest source of revenue for the Province is tax revenues, with \$5.1 billion coming from Personal Income Tax, Corporate Income Tax, and HST. These revenues are subject to significant assumptions and judgements due to the timing differences between the Province's reporting date and when actual tax revenue figures become known, such as when taxpayers file tax returns.

1.41 In order to record tax revenue, management determines its best estimate using statistical models based on assumptions that reflect historical trends, economic conditions, and Government's planned courses of action. The Public Accounts provide further information on the estimation of tax revenues and uncertainty around these estimates.

1.42 We obtained an understanding of the systems, processes, and controls over tax revenue. We tested the underlying data used in the various tax revenue estimation models and reviewed evidence to support the key assumptions



used while considering external information. Based on our work, we were satisfied that 2018-19 tax revenues were reasonable and fairly stated.

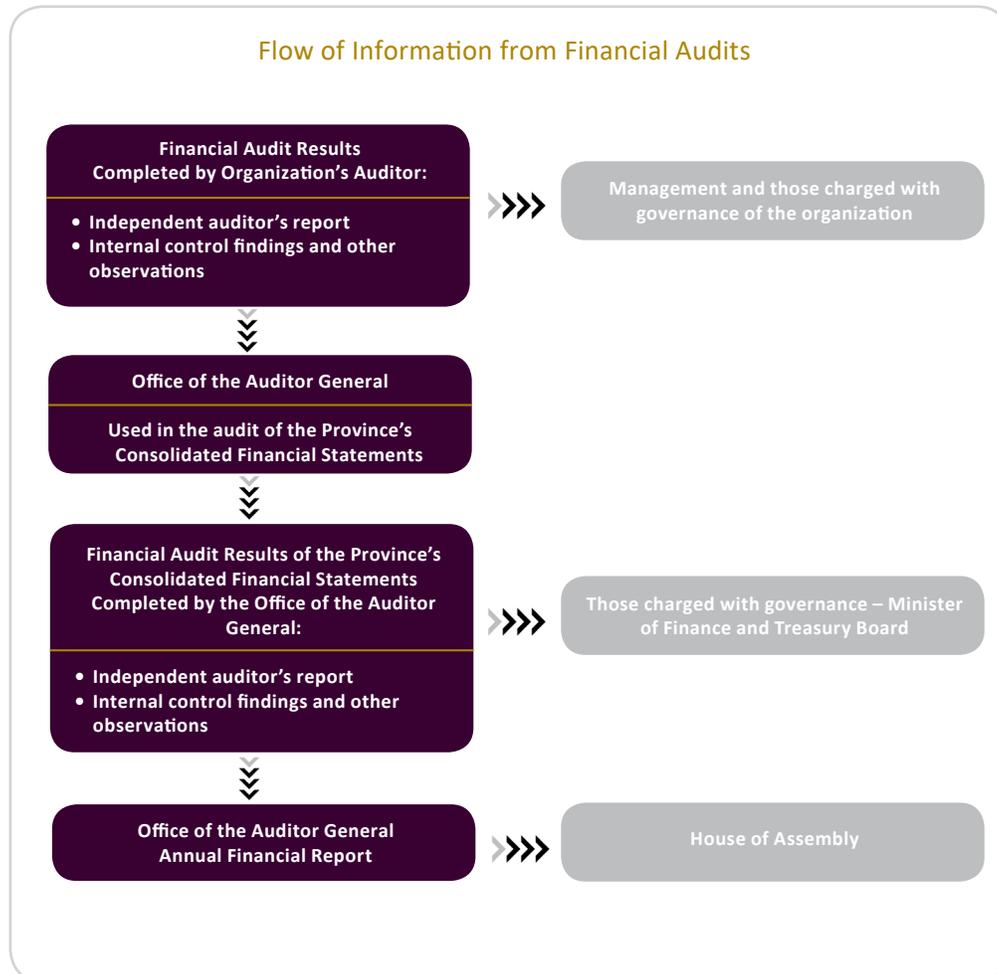
 Increased risk of inappropriate expense transactions relating to the purchasing card process

- 1.43 Purchasing cards (PCards) are government credit cards used by employees to make work-related purchases. PCard balances are paid directly by the Province without cardholders having to initially provide purchasing support (i.e., receipts and invoices). As a result, PCards present a risk for misuse by employees.
- 1.44 In response to this risk, we tested departmental PCard transactions made during fiscal 2018-19. We identified several transactions that were missing documentation as required by the Province's PCard policy. Missing documentation diminishes management's ability to effectively review and approve PCard purchases. Ineffective review and approval of PCard transactions increases the risk that inappropriate purchases are made and are not detected.
- 1.45 We concluded that the weaknesses in this area did not impact our opinion on the material fairness of the Province's 2018-19 expenditures. However, we recommended that the Province review its policies, procedures, and processes relating to the use of PCards to ensure more effective financial management and control.



### Reporting on Financial Audits

The individual financial audit results of government organizations are reported to organizations' 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.





## Independent Auditor's Report

### INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Nova Scotia:

#### Report on the Audit of the Consolidated Financial Statements

##### *Opinion*

I have audited the consolidated financial statements of the Province of Nova Scotia, which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statement of operations and accumulated deficits, consolidated statement of changes in net debt and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Nova Scotia as at March 31, 2019, and its consolidated results of operations, consolidated changes in its net debt, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

##### *Basis for Opinion*

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of my report. I am independent of the Province of Nova Scotia in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### *Emphasis of Matter – Accounting for Contaminated Sites*

I draw attention to Note 1 and Note 10 of the March 31, 2019 consolidated financial statements of the Province of Nova Scotia which describe the accounting policy and the nature and details of the amounts recorded in the consolidated financial statements related to contaminated sites. This note outlines how the Province complies with accounting standards for environmental costs based on the key requirements of Canadian public sector accounting standards. This means that amounts are only recorded when a liability meets recognition criteria and can be reliably measured.

In the future, as additional environmental studies are completed, it may be possible that the Province will need to account for additional liabilities related to its contaminated sites if it determines that contamination exceeds an environmental standard, a reasonable estimate of the related remediation costs can be made, and it is expected future economic benefits will be given up to remediate the sites.

The March 31, 2019 consolidated financial statements of the Province of Nova Scotia fairly present the contaminated sites liability in accordance with Canadian public sector accounting standards.

My opinion is not modified in respect of this matter.

##### *Other Information*

The Government of Nova Scotia is responsible for the other information. The other information comprises the information in Volume 1 of the Public Accounts of Nova Scotia (but does not include the consolidated financial statements and my auditor's report thereon), which I obtained prior to the date of this auditor's report, and the Form 18-K Securities and Exchange Commission filing, which is expected to be made available to us after that date.



My opinion on the consolidated financial statements does not cover the other information and I do not and will not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

When I read the Form 18-K Securities and Exchange Commission filing, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Province of Nova Scotia's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern assumption. The going concern basis of accounting has been used in the preparation of the consolidated financial statements, as the Province of Nova Scotia continues to operate as a going concern.

Those charged with governance are responsible for overseeing the Province of Nova Scotia's financial reporting process.

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Province of Nova Scotia's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Province's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Province of Nova Scotia to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Province of Nova Scotia to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision, and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Michael A. Pickup, FCPA, FCA  
Auditor General of Nova Scotia

Halifax, Nova Scotia  
July 18, 2019



## Appendix III

## Summary of Significant Control Weaknesses

<b>Housing Nova Scotia</b>	
<b>Significant Control Weakness</b>	<b>Potential Impact</b>
1. User accounts are not locked after a reasonable number of unauthorized access attempts and user passwords do not expire until after 120 days have elapsed	Unauthorized access to information and risk of financial errors  Difficult to detect compromised passwords due to the length of time before a password expires
2. Individuals responsible for program changes use shared accounts to modify data	Unapproved data changes may be made or fraudulent activity could go undetected
3. Individuals responsible for application changes have access to both test and production environments	Unapproved data changes may be made or fraudulent activity could go undetected
<b>Management's response (unaudited)</b>	
<p><i>Finding 1: Security controls on user accounts for the provincial network are under the responsibility of SNS-IS and as a result, Housing Nova Scotia does not have the authority to implement measures to address user account or password identified deficiencies. Housing Nova Scotia will raise these findings with SNS-IS to assist in ensuring the identified deficiencies are addressed.</i></p> <p><i>Findings 2 &amp; 3: Noted individuals are staff of SNS-IS and as a result, Housing Nova Scotia does not have the authority to implement measures to address the shared account and separation of duties deficiencies. Housing Nova Scotia will raise these findings with SNS-IS to assist in ensuring the identified deficiencies are addressed.</i></p>	

<b>Izaak Walton Killam Health Centre</b>	
<b>Significant Control Weakness</b>	<b>Potential Impact</b>
1. Lack of segregation of duties in the preparation, review, and posting of journal entries	Inappropriate or unauthorized journal entries could be recorded
2. Lack of restrictions and monitoring of user access to billing system	Unauthorized access to billing system could result in inappropriate transactions
3. Lack of segregation of duties in the procurement department	Unauthorized purchases could be made
4. Lack of monitoring of capital assets	Inability to effectively track tangible capital assets and identify potentially misappropriated assets
5. Capital assets are not recorded on the date of acquisition; thereby, delaying amortization expense	Overstatement of capital assets and understatement of annual expenditures
6. Estimated useful lives and amortization methods are not regularly reviewed by management	Misstatement of capital assets
<b>Management's response (unaudited)</b>	
<p><i>The IWK continues to address the identified control weaknesses in this report. Effective April 1, 2019, management implemented a journal entry policy which addresses deficiencies surrounding segregation of duties with journal entries. Access to the IWK's billing system is limited to less than fifteen people and a quarterly access review process has been implemented. In addition, a review of</i></p>	



**Izaak Walton Killam Health Centre (continued)**

*individual specific transaction access is in progress. Procurement segregation of duties weaknesses have been addressed with the implementation of added controls and further controls measures have been developed and are in varying stages of implementation. Management has begun work to address the identified capital asset control deficiencies. Controls around capital acquisition dates, useful lives and amortization methods will be completed during fiscal 2019-20, however due to the varying types and volumes of assets, along with other complexities, the implementation of a fully functioning asset tracking system will extend into fiscal 2020-21.*

**Nova Scotia Gaming Corporation**

Significant Control Weakness	Potential Impact
1. No established process to ensure the conclusions reached by external advisors on complex accounting issues are appropriately implemented in financial reporting	Risk of errors in the financial statements, particularly around complex accounting issues

**Management's response (unaudited)**

*Management acknowledges that an issue was identified through the audit and has taken steps to correct the consolidated accounts prior to the completion and release of the March 31, 2019 consolidated financial statements.*

**Nova Scotia Health Authority**

Significant Control Weakness	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 timesheets	Increased risk due to fraud or error in payroll expenses
3. Lack of review of capital asset additions	Inappropriate recording of capital assets
4. Construction in progress accounts are not adequately reviewed to determine which projects are complete	Overstated construction in progress accounts could understate annual expenditures
5. Lack of monitoring of capital assets	Inability to effectively track tangible capital assets and identify potentially misappropriated assets

**Management's response (unaudited)**

*Strong internal controls are of the utmost importance to NSHA which is why several comprehensive strategies have been implemented or are underway to strengthen and support our financial control environment. NSHA prepares and reviews exception reports for timesheets to ensure time coded is being monitored centrally as well. There is an NSHA team in place dedicated to internal control design, management and oversight, as well as an Internal Audit team which reports directly to the Board of Directors. A comprehensive fraud risk assessment on payroll has been completed; and many other control strategies are in place or in progress. The areas highlighted by the OAG are being worked on, including mitigation plans developed and the hiring of an independent external review to ensure the NSHA is focusing on the key risk issues and priority areas. This review is in progress, and will continue to guide our efforts.*