

2020 Financial Report



**Report of the Auditor General
to the Nova Scotia
House of Assembly**



Office of the Auditor General of Nova Scotia
Independence • Integrity • Impact

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December 1, 2020

Honourable Kevin Murphy
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the Auditor General Act, to be laid before the House in accordance with Section 18(4) of the Auditor General Act.

Respectfully,

A handwritten signature in cursive script that reads "Terry Spicer".

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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

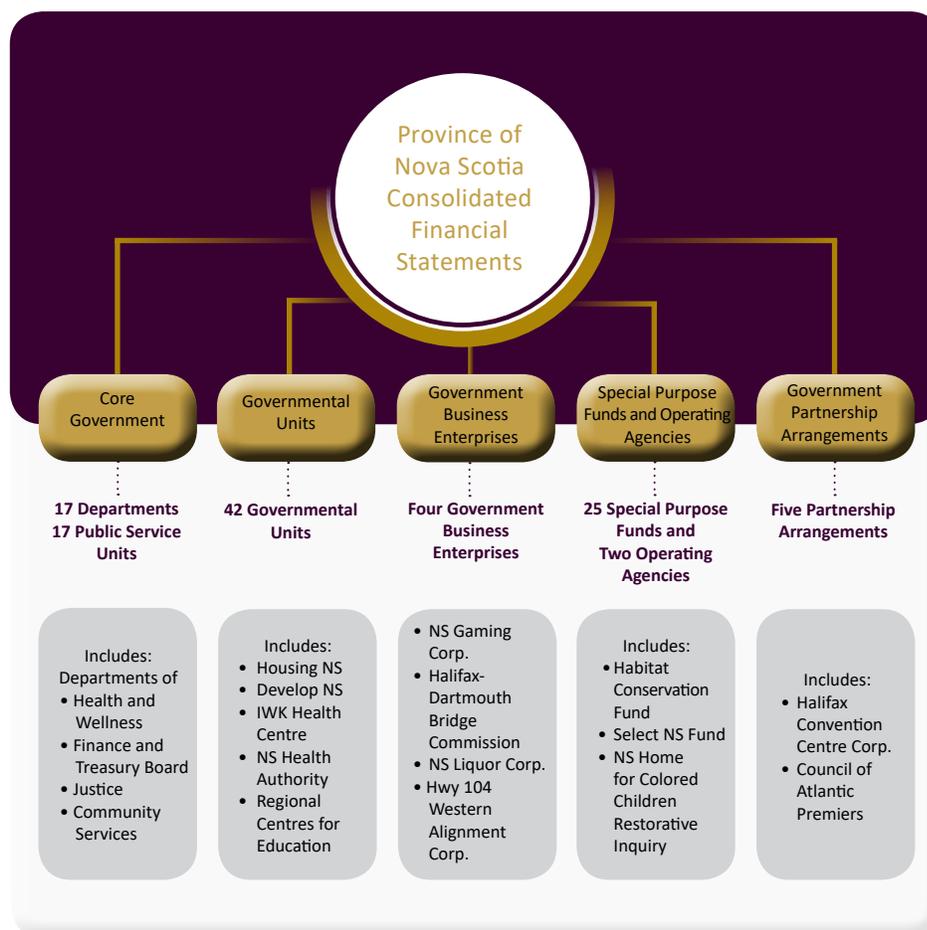
Questions Nova Scotians May Want to Ask

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"> 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 	8	1	9
Lands and Forestry <ul style="list-style-type: none"> Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites on Crown lands 	1	-	1
Total	9	1	10

➔ 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
Total	17

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.

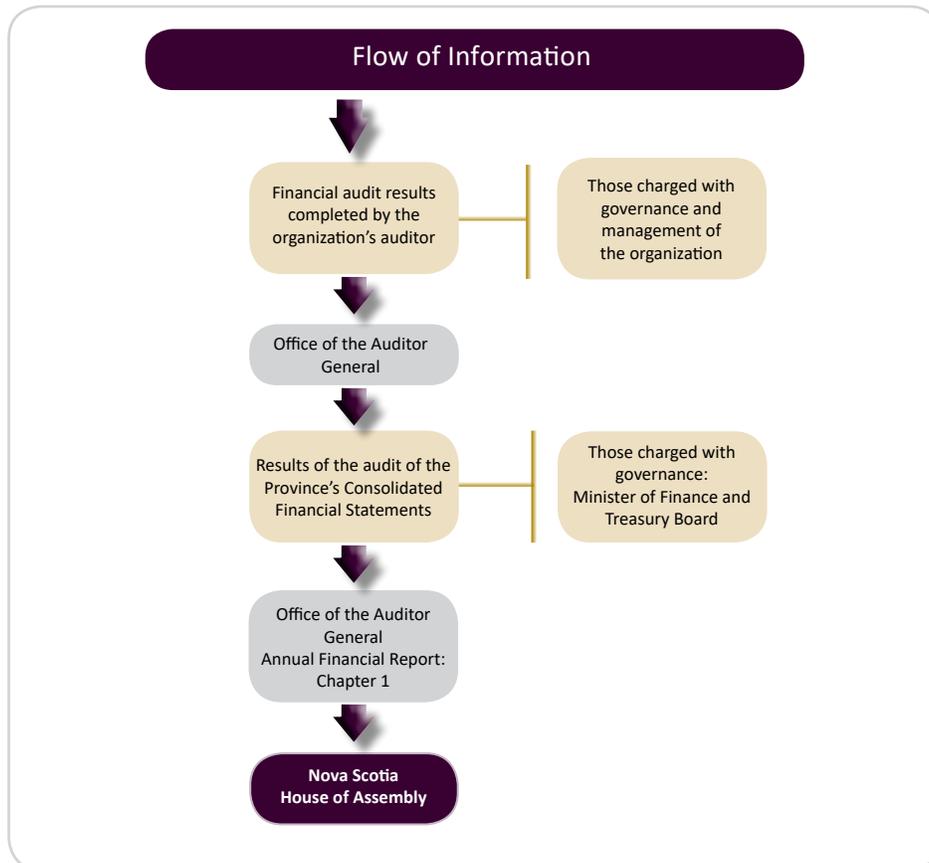
1.28 The Province has established and transferred \$306 million to the following external trusts since the fiscal year 2016-17:

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
Total	\$306 million	

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>Management’s response (unaudited)</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>Management’s response (unaudited) (Continued)</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>Management’s response (unaudited)</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

Canadian Sports Centre Atlantic	
Significant Control Weaknesses	Potential Impact
1. No evidence of review and approval of invoices, expense reports and payroll.	Increased risk of inappropriate or unauthorized payments made to vendors and/or employees.
2. Lack of 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.
Management's response (unaudited)	
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.	
Harbourside Commercial Park Inc.	
Significant Control Weaknesses	Potential Impact
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.
Management's response (unaudited)	
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.	
Housing Nova Scotia	
Significant Control Weaknesses	Potential Impact
1. Lack of controls relating to user accounts and password expiry.	Increased risk of unauthorized access to information and financial errors.
2. Lack of user access controls for administrators in the production ICM database.	Increased risk of unapproved data changes or fraudulent activity going undetected.
3. Lack of user access controls for developers in the production environment.	Increased risk of unapproved data changes or fraudulent activity going undetected.
Management's response (unaudited)	
The recommended solutions to the control weaknesses noted in this chapter, have a government-wide impact, that affects all Province of Nova Scotia users. Housing Nova Scotia (HNS), as part of the Department of Municipal Affairs and Housing (DMAH), has shared these observations with Service Nova Scotia and Internal Services (SNS-IS).	



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

Housing Nova Scotia
<p>Management’s response (unaudited) (Continued)</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"> • All data changes require business confirmation, and SNS-IS management is notified when a business partner requests a data change. • A project underway to upgrade the Oracle Database will improve generic account tracking. • 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. <p>DMAH will continue to communicate any relevant observations and recommendation(s) to SNS-IS.</p>

Izaak Walton Killam Health Centre	
Significant Control Weaknesses	Potential Impact
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>Management’s response (unaudited)</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>Management's response (unaudited)</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>Management's response (unaudited)</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.
Management's response (unaudited)	
<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.
Management's response (unaudited)	
<p>Sydney Steel Corporation Board meetings will now be held following the scheduled Nova Scotia Lands Board meetings.</p>	



Chapter 2

Financial Impacts of COVID-19 on the Province of Nova Scotia

Key Messages

- COVID-19 is projected to have a significant negative affect on the Province's finances
- The Province initially budgeted for a surplus of \$55 million and is now forecasting a deficit of \$853 million in 2020-21
- The Province reported \$120 million in 2019-20 and is forecasting \$460 million in spending in 2020-21 on COVID relief measures

Why We Did This Chapter

- COVID-19 has significantly affected people around the world, including here in Nova Scotia
- To provide Nova Scotians with highlights of government spending initiatives and revenue impacts related to COVID-19

Projected Financial Impacts to the Province

- Nova Scotia's economy is projected to shrink by 5.5% in 2020
- The Province is projecting an annual operating deficit of \$853 million in 2020-21
- The Province is forecasting a decrease of \$599.2 million in total Provincial revenue for 2020-21 from original estimates
- The Province's net debt is forecasted to increase by an additional \$1.2 billion during 2020-21 from what was initially budgeted
- The Province's net-debt-to-GDP is forecasted to increase by 5.6% from 2019-20

Increased Costs due to COVID-19: Reported and Forecasted

The Province introduced significant COVID-19 relief measures in 2019-20, including:

- Providing Dalhousie University \$100 million in 2019-20 to administer COVID-19 relief on the Province's behalf
- Offering \$151 million in government loan payment deferrals
- Deferring Student Loans for six months

The Province forecasts significant COVID-19 relief measures for 2020-21, including:

- Department of Health and Wellness forecasting \$331 million in COVID-19 costs
- Municipalities loan program projecting to provide \$380 million
- Universities receiving \$270 million in cash advances
- Infrastructure stimulus funding of \$228 million projected to stimulate the economy



Questions Nova Scotians May Want to Ask

1. What oversight exists to ensure that COVID-19 allocated funds will achieve government's intended outcomes?
2. How does the Province intend to fund the spending related to COVID-19?
3. When will the Province release an economic recovery plan?
4. What portion of the Province's COVID-19 spending is provided directly to individuals and households?
5. How are undisbursed funds from the \$50 million Tourism Sector Financing Assistance program, administered by Dalhousie, to be spent?

2 Financial Impacts of COVID-19 on the Province of Nova Scotia

Purpose

- 2.1 The purpose of this chapter is to provide important information about the Province's financial response to COVID-19 and highlight the projected financial impacts to the Province.

Limitations

- 2.2 This report does not assess or comment on the effectiveness of the Province's response to COVID-19. The financial measures and funding allocations presented in this chapter are unaudited. The information presented was obtained from provincial media releases, government departments, the Province's Public Accounts from 2017-18 to 2019-20, the 2020-21 Budget which was published on February 25, 2020, as well as information from the Department of Finance and Treasury Board's updated forecast presented on July 29, 2020.
- 2.3 As the pandemic is ongoing, there is still considerable uncertainty around its impacts on the Province. As a result, the information presented in this report is subject to change.
- 2.4 The Office of the Auditor General will release a performance audit in 2021 that will look at the various provincial spending programs established to support Nova Scotians through COVID-19. Consideration will be given in that report to the approaches selected to administer these programs and the oversight put in place to ensure they function as intended.

Background and Timeline

- 2.5 The World Health Organization (WHO) declared the COVID-19 outbreak a global pandemic on March 11, 2020 and the Government of Nova Scotia declared a provincial state of emergency to help contain the spread of COVID-19 on March 22, 2020, which is still in place, as of December 1, 2020.
- 2.6 A state of emergency provides the Province with additional powers to implement safety measures to protect Nova Scotians, such as imposing travel restrictions and limiting the size of public gatherings. Declaring a state of emergency is not necessary for the Province to incur additional expenditures to respond to COVID-19.
- 2.7 Below is a high-level timeline of certain significant events leading up to the Province's July 29, 2020 fiscal update:



Timeline	
Date	Description
March 15, 2020	<ul style="list-style-type: none"> • Three presumptive COVID-19 cases detected in Nova Scotia; all travel related
March 16, 2020	<ul style="list-style-type: none"> • Universities and other post-secondary institutions suspended operations
March 17, 2020	<ul style="list-style-type: none"> • Bars ordered closed; restaurants limited to take-out and delivery • Public gatherings limited to 50 or fewer individuals
March 20, 2020	<ul style="list-style-type: none"> • Province announced the allocation of \$161 million in government assistance
March 21, 2020	<ul style="list-style-type: none"> • Closure of land border between Canada and the United States
March 22, 2020	<ul style="list-style-type: none"> • Provincial state of emergency declared • Province instituted screening and 14-day isolation for people entering the province • All provincial parks, beaches, and tourist attractions closed • Gatherings over 5 people prohibited • Businesses required to ensure a two-metre distance between people
March 23, 2020	<ul style="list-style-type: none"> • In-class teaching for public schools suspended across the Province
March 30, 2020	<ul style="list-style-type: none"> • First official case of COVID-19 community spread reported
May 1, 2020	<ul style="list-style-type: none"> • The Province announced easing of several public health restrictions, including reopening public parks and trails
May 15, 2020	<ul style="list-style-type: none"> • Introduction of the two-household bubble
May 29, 2020	<ul style="list-style-type: none"> • First day no new cases of COVID-19 reported
June 5, 2020	<ul style="list-style-type: none"> • Bars, restaurants, gyms, barber shops, etc. reopen under public health restrictions
July 3, 2020	<ul style="list-style-type: none"> • Atlantic bubble formed, easing travel restrictions among the four provinces
July 29, 2020	<ul style="list-style-type: none"> • Minister of Finance and Treasury Board provided an update on the Province's fiscal outlook • Province continued to operate under a state of emergency

Impact to the Province's Economy and Financial Results



Nova Scotia's economy is projected to shrink by 5.5% in 2020

2.8 In February, prior to COVID-19, the Province was projecting economic growth of 2.4% in 2020. By the end of July 2020, the Province's economy was instead projected to decline by 5.5%. According to the Province, this projected downturn was a result of the significant economic disruptions brought on by COVID-19. The table below compares key economic assumptions before COVID-19 and the revised assumptions issued on July 29, 2020.

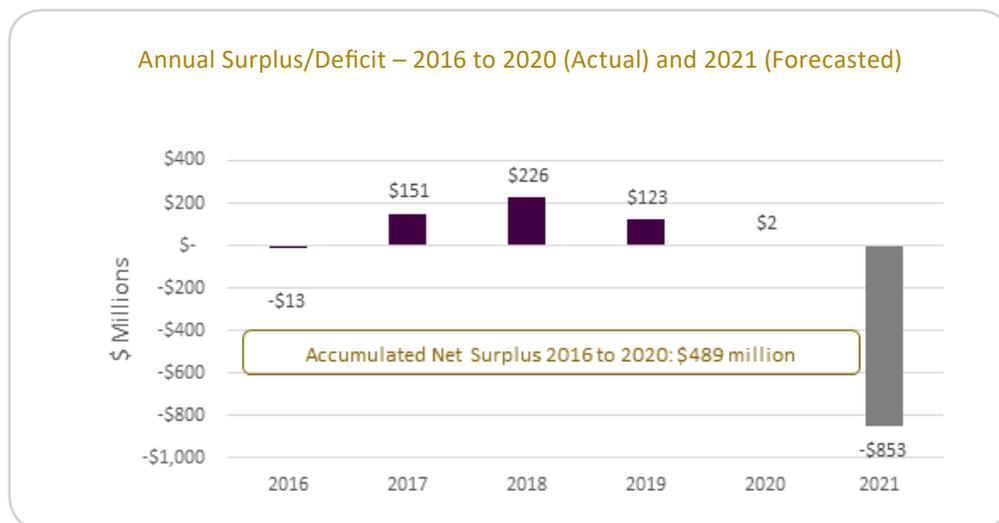
Current Economic Outlook Assumptions				
	February 2020 Budget		July 2020 Forecast Update	
Per cent change, except where noted*	2020	2021	2020	2021
Nominal GDP Growth	2.4%	3.2%	-5.5%	6.9%
Unemployment Rate*	8.1%	7.6%	11.0%	9.2%
Household Final Consumption	2.8%	3.3%	-7.5%	7.0%
Exports of Goods to Other Countries	-1.7%	3.1%	-12.7%	10.2%
Imports of Goods and Services	3.2%	3.1%	-8.6%	8.1%

Source: *The Forecast Update (July 29, 2020)*



➔ The Province is now projecting an annual operating deficit of \$853 million for 2020-21

- 2.9 As a result of the expected economic downturn, the Province revised its projected revenues and expenses for 2020-21.
- 2.10 The annual surplus and deficit indicate the extent to which revenues exceed or do not meet yearly expenses. A surplus occurs when revenues are greater than expenses. A deficit occurs when expenses are greater than revenues. The Province was originally projecting a surplus of \$55 million in 2020-21, but by the end of July 2020, an operating deficit of \$853 million was projected for the same period.



Source: Department of Finance and Treasury Board and the Forecast Update (July 29, 2020)

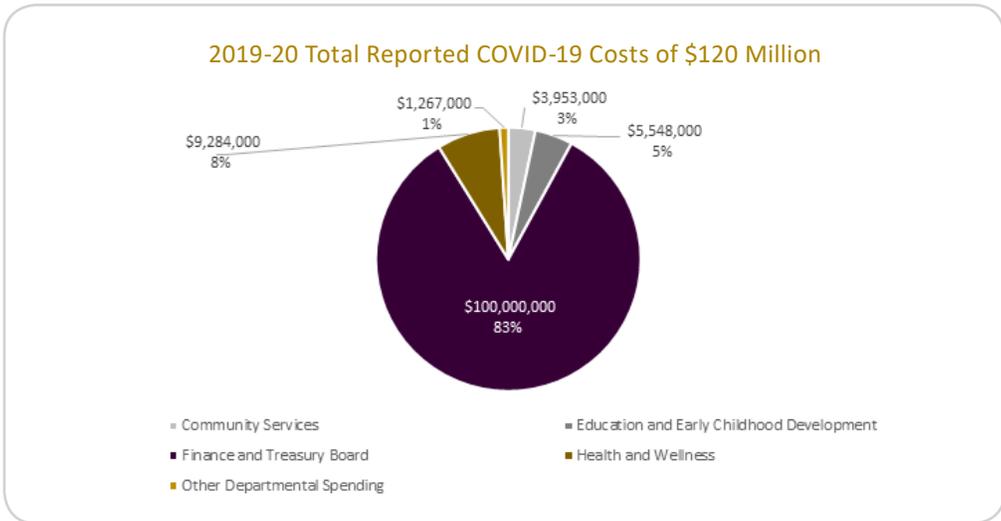
- 2.11 The main drivers behind the reforecasted annual deficit of \$853 million for 2020-21 relate to COVID-19 related costs and a reduction in provincial revenues.

Increased Costs due to COVID-19: Reported and Forecasted

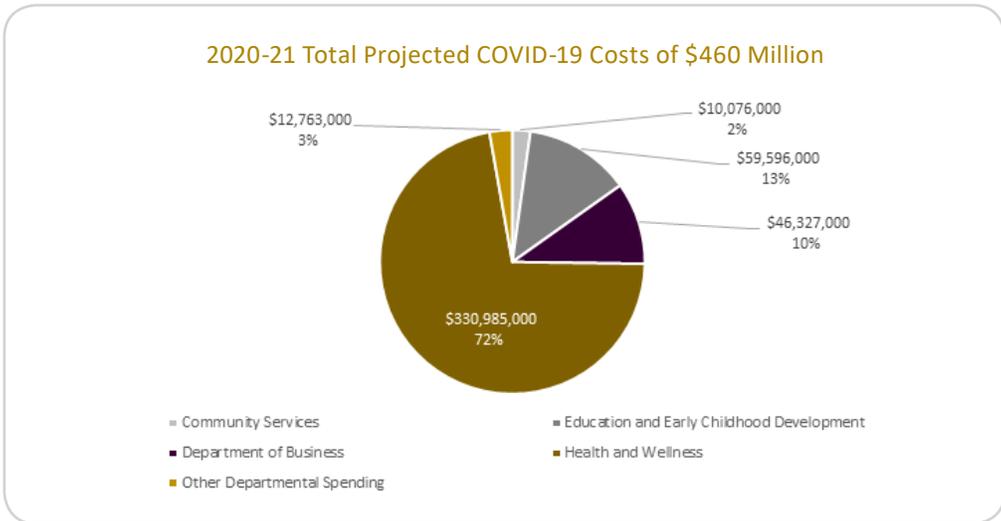
- 2.12 The COVID-19 pandemic has had a significant impact on Nova Scotians. As a result, the Province has responded with numerous relief measures.

➔ The Province reported \$120 million in COVID-19 relief measures in 2019-20 and is forecasting \$460 million in 2020-21

- 2.13 The following two charts detail the government departments with significant reported and forecasted COVID-19 related costs:



Source: COVID-19 Costs Fact Sheet – Finance & Treasury Board (July 2020)



Source: COVID-19 Costs Fact Sheet – Finance & Treasury Board (July 2020)

Department of Finance and Treasury Board

2.14 Most of the Province’s 2019-20 COVID-19 costs were reported by the Department of Finance and Treasury Board. The Department is not projecting additional COVID-19 costs for 2020-21.



Dalhousie University to administer \$100 million in COVID-19 relief funding on behalf of the Province

2.15 In 2019-20, the Province signed a contract with Dalhousie University for \$100 million in relief measures designed to support small businesses and Nova Scotians. The table below details how the \$100 million has been allocated to specific relief measures:



Department of Finance and Treasury Board COVID-19 Costs			
2019-20		2020-21	
Financial Support to be administered by Dalhousie University	Reported Costs (in millions)	Relief Measure	Project Costs (in millions)
Tourism Sector Financing Assistance Program	\$50	No projected costs	
Small Business Reopening and Support Grant	\$20		
Small Business Impact Grant	\$10		
Worker Emergency Bridge Fund	\$8		
COVID-19 Rent Deferral Support Program	\$5		
Other program support	\$4		
COVID-19 Small Business Credit and Support	\$3		
Total Reported Costs 2019-20	\$100 million	Total Projected Costs 2020-21	\$-

Source: COVID-19 Costs Fact Sheet – Finance & Treasury Board (July 2020) & novascotia.ca/news

- 2.16 On October 16, 2020, the Province announced the Tourism Sector Financing Assistance Program. The program provides eligible tourism operators access to debt financing at more favorable terms. This program does not provide funds directly to applicants. Instead, \$50 million has been allocated to be used as security to guarantee loans taken by large tourism operators with banks and will only be paid to the lending institutions in the event an applicant defaults.
- 2.17 The Small Business Impact Grant provides a one-time payment of up to \$5,000 for small businesses which were required to close during the pandemic. The Small Business Reopening and Support Grant provides an additional \$5,000 for reopening costs.
- 2.18 The Nova Scotia Provincial Government began providing funding directly to Nova Scotians by way of the Nova Scotia Worker Emergency Bridge Fund. This initiative provided a one-time \$1,000 payment to support self-employed and laid-off workers not eligible for Employment Insurance, as they waited for the payout of the federal Canada Emergency Response Benefit (CERB) payments.

Department of Health and Wellness

- 2.19 The Department of Health and Wellness provides leadership to the health system and plays a significant role in the Province's response to COVID-19. Consequently, the Department is incurring significant costs responding to the pandemic.



Department of Health and Wellness projects \$331 million in COVID-19 related costs in 2020-21

2.20 The table below details the reported and projected COVID-19 related costs to the Department of Health and Wellness:

Department of Health and Wellness COVID-19 Costs			
2019-20		2020-21	
Relief Measure	Reported Costs (in millions)	Relief Measure	Projected Costs (in millions)
Nova Scotia Health Authority (NSHA) and IWK Health Centre (IWK) operations	\$4.1	NSHA and IWK operations	\$154.7
Long-Term Care support	\$2.3	Essential Health Care Workers Program (\$71.3M federal, \$9.9M provincial)	\$81.2
Home Care support	\$1.8	Income stabilization and virtual care fees for Doctors	\$53.6
Other program support	\$1.1	Long-Term Care support	\$45.9
		Capital grants for projects at NSHA and IWK	\$35.1
		Other expenditures	\$26.5
		NSHA equipment purchases	\$21.9
		Less: Cost savings and recoveries due to COVID-19	\$(87.9)
Total Reported Costs 2019-20	\$9.3 million	Total Projected Costs 2020-21	\$331 million

Source: COVID-19 Costs Facts Sheet – Finance & Treasury Board (July 2020)



COVID-19 related relief support to NSHA and IWK focuses on operational and capital costs

2.21 Operational funding to NSHA and IWK for 2019-20 and 2020-21 covers various items including personal protective equipment (PPE) supplies, and salaries and wages. It also includes compensation for lost revenues primarily from parking and food vendors at healthcare facilities.

2.22 In response to the increased strain on the healthcare system, the Province, with support from the federal government, implemented the Essential Health Care Workers Program. This program provides a one-time payment up to \$2,000 to each healthcare worker who meets eligibility criteria. Payments are estimated to total \$81.2 million in 2021 with \$71.3 million provided by the federal government.

2.23 To promote and facilitate social distancing practices, Nova Scotia increased its virtual care and 811 HealthLine program capacity. Spending on communications equipment and technology is ongoing to support virtual health care.



2.24 Capital-related expenditures related to COVID-19 are expected as well. The Province is projecting stimulus funding capital grants for projects at NSHA and the IWK totaling \$35.1 million in fiscal 2020-21. Additional funding totaling \$21.9 million is planned for NSHA to purchase ventilators, beds/mattresses, and other equipment.

Department of Education and Early Childhood Development

2.25 The Department of Education and Early Childhood Development is responsible for children's education, licensing and funding of the childcare sector, as well as providing subsidies to help families with the cost of childcare. The Department plays a significant role in ensuring that education continues to be delivered while responding to COVID-19.

➡ Department of Education and Early Childhood Development projects \$60 million in spending for 2020-21

2.26 The table below details the reported and projected COVID-19 related costs to the Department of Education and Early Childhood Development:

Department of Education and Early Childhood Development COVID-19 Costs			
2019-20		2020-21	
Relief Measure	Reported Costs (in millions)	Relief Measure	Projected Costs (in millions)
Childcare sector support	\$5.5	Back-to-school reopening	\$41.3
		Childcare sector support grants	\$30.0
		IT supports for back-to-school	\$4.5
		Other expenditures	\$0.4
		Less: cost savings due to COVID-19	(16.6)
Total Reported Costs 2019-20	\$5.5 million	Total Projected Costs 2020-21	\$59.6 million

Source: COVID-19 Costs Fact Sheet – Finance & Treasury Board (July 2020)

➡ To reopen public schools – \$41 million

2.27 Public schools and early childhood development centers reopened for the 2020-21 school year with an increased emphasis on social distancing. To support the back-to-school plan, the Province provided an estimated \$41.3 million for fiscal 2021 in reopening funding which includes:

- Substitute teachers – \$29.4 million
- Custodial services and enhanced sanitization – \$10.2 million



➡ To keep childcare centres open – \$35.5 million

- 2.28 Childcare sector grants were reported to be \$5.5 million in 2020 and are forecasted to cost \$30 million for 2021. The goal of this funding was to provide assistance to daycare facilities between March 17, 2020 and September 1, 2020 to ensure COVID-19 would not force them to close.
- 2.29 In response to COVID-19, both the manner and timing of educational instruction have changed. Starting March 23, 2020, the Province of Nova Scotia suspended in-class teaching for elementary and secondary schools across the province. Universities and other post-secondary institutions suspended in-class teaching effective March 16, 2020. Due to the suspension of in-person classes in the province and restricted access to campuses, many schools and universities transitioned to distance learning to complete the academic year.
- 2.30 The Province is projecting internal operational savings of \$16.6 million in 2020-21 when schools closed, and teaching moved to distance learning.

Department of Business

- 2.31 The Department of Business collaborates with crown corporations and other business-focused entities to develop plans and policies to attract venture capital investment to grow the provincial economy. The Department’s COVID-19 costs are focused on economic stimulus.

➡ The Department of Business projects \$46 million in COVID-19 related costs in 2020-21

- 2.32 The table below details the reported and projected COVID-19 related costs to the Department of Business:

Department of Business COVID-19 Costs			
2019-20		2020-21	
Relief Measure	Reported Costs (in millions)	Relief Measure	Projected Costs (in millions)
No specific costs		Economic stimulus funding	\$37.9
		Additional funding for lost revenues	\$4.2
		Canada Emergency Commercial Rent Assistance Program	\$3.0
		Enhanced Small Business Loan Guarantee Program	\$1.2
Total Reported Costs 2019-20	\$-	Total Projected Costs 2020-21	\$46.3 million

Source: COVID-19 Costs Fact Sheet – Finance & Treasury Board (July 2020)



2.33 The Department of Business indicated that it is projecting economic stimulus funding of \$37.9 million to go towards six properties owned by Develop Nova Scotia. All projects are currently underway:

- Cable Wharf Recapitalization, Phase 2: \$2.6M
- Lunenburg Zwicker Renovation: \$1.2M
- Lunenburg Shipyard Revitalization: \$4.6M
- COVE South Marine Terminal Recapitalization: \$15.2M
- Halifax Boardwalk and Various Projects: \$10.6M
- Peggy's Cove Climate Adaptation and Visitor Services: \$3.7M

2.34 Additional funding of \$4.2 million was also provided to the Halifax Convention Centre and Develop Nova Scotia to make up for lost revenues as a result of COVID-19.

Department of Community Services

2.35 The Department of Community Services provides foundational social programs and services that respond to the needs of individuals, children, youth, and families. The Department's COVID-19 related costs are focused on direct support to the people they serve.

➡ The Department of Community Services projects \$10 million in COVID-19 related spending in 2020-21

2.36 The table below details the reported and projected COVID-19 related costs to the Department of Community Services:

Department of Community Services COVID-19 Costs			
2019-20		2020-21	
Relief Measure	Reported Costs (in millions)	Relief Measure	Projected Costs (in millions)
Eligible Standard Household Rate Clients one-time payment	\$2.2	Increased funding requirements for clients served through a variety of programs	\$10.6
Other expenditures	\$1.8	Funding for four Small Options Homes	\$4.4
		Other expenditures	\$1.5
		Less: Cost savings due to COVID-19	\$(6.4)
Total Reported Costs 2019-20	\$4 million	Total Projected Costs 2020-21	\$10.1 million

Source: COVID-19 Costs Fact Sheet – Finance & Treasury Board (July 2020)



- 2.37 In 2019-20, the Department provided an additional one-time payment of \$50 to individuals on income assistance. Payments totaling \$2.2 million began in March 2020.
- 2.38 For 2020-21, there is a projected increase in funding of \$10.6 million for the following programs:
- Disability Support (DSP)
 - Employment Support and Income Assistance (ESIA)
 - Children, Youth and Family Supports (CYFS)
- 2.39 The Province announced \$4.4 million in economic stimulus funding for four small options homes to support persons with disabilities by replacing existing sites. This funding is in addition to projects announced in the budget released in February 2020.
- 2.40 Other reported measures to assist individuals and households include:
- Funding to Feed Nova Scotia and community food banks
 - Support for transition houses and other organizations serving vulnerable women and children
 - Communication initiatives for vulnerable Nova Scotians and those in long-term care facilities
- 2.41 Lower program operational costs (utilization) are projected as a result of public health restrictions and is expected to reduce service delivery expenditures by \$6.4 million.

Infrastructure Stimulus Funding



Infrastructure grants to stimulate the economy in 2020-21 – \$228 million

- 2.42 On May 27, 2020, the Province announced an infrastructure grant of \$228 million to stimulate the economy. The intent was to create jobs, improve infrastructure, and get the economy moving again.

Other Reported Initiatives

- 2.43 The Province also reported several other financially significant support measures:
- On April 28, 2020, the Province announced a new \$380 million operating loan program to help municipalities. Loans are available through the Nova Scotia Municipal Finance Corporation at Provincial interest rates.



- Cash advances totaling \$270 million were provided to universities and colleges in Nova Scotia to improve their cash positions.
- Loan repayments valued at \$151 million were deferred at the Farm Loan Board, Fisheries and Aquaculture Loan Board, Nova Scotia Jobs Fund, Nova Scotia Business Fund, Nova Scotia Municipal Finance Corporation, Housing Nova Scotia and through changes to the Small Business Loan Guarantee Program.
- Student Loan payments were suspended on the Nova Scotia Student Loan program for six months, from March 30 to September 30, 2020.

Decreased Revenues due to COVID-19: Actual and Forecasted

2.44 The economic disruptions from COVID-19 are also significantly impacting the Province's revenues.

 The Province is forecasting a decrease of \$599.2 million in total Provincial revenue for 2020-21

2.45 Prior to COVID-19, the Province budgeted \$7.1 billion in revenue from provincial sources in 2020-21. During its forecast update in July 2020, the Province revised its 2020-21 provincial source revenue down to \$6.5 billion, a reduction of \$599.2 million.

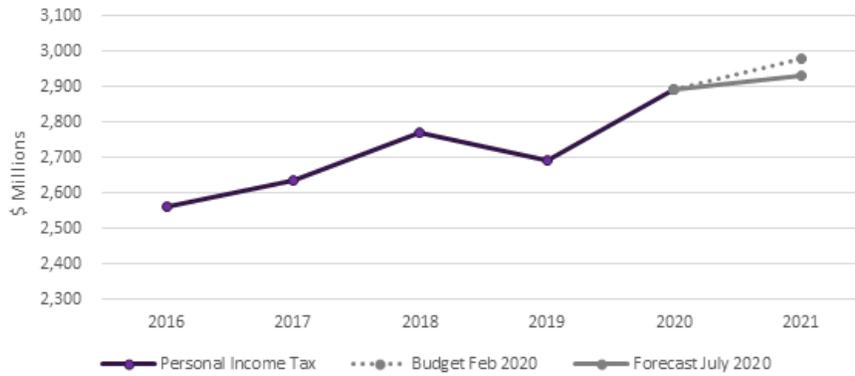
2.46 This reduction in revenue is primarily driven by a forecasted decrease from the budgeted revenue in the following areas:

- Personal Income Tax revenue – \$50 million decrease
- Corporate Income Tax revenue – \$160.8 million decrease
- Harmonized Sales Tax revenue – \$234.4 million decrease
- Government Business Enterprises (GBEs) – \$78.1 million decrease in net income

2.47 Personal Income Tax revenues are forecasted to decrease by \$50 million from initial budgets due primarily to a marginal reduction in taxable income of individuals. Although unemployment is forecasted to increase in 2020, the measures introduced by the Federal government such as the Canada Emergency Response Benefit (CERB) and Canada Emergency Student Benefit (CESB) are both taxable, resulting in a marginal decrease in Personal Income Tax revenue of 1.7%.



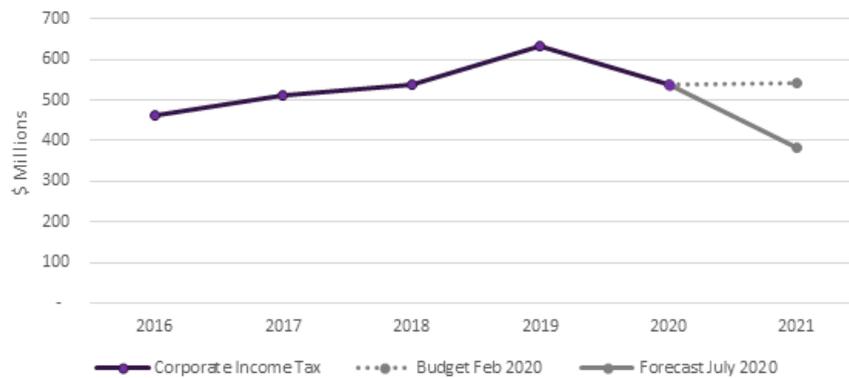
Personal Income Tax Revenue – 2016 to 2020 (Actual) and 2021 (Budget & Forecasted)



Source: Public Accounts 2017-18 to 2019-20 and the Forecast Update (July 29, 2020)

2.48 Corporate Income Tax revenues are forecasted to decrease by \$160.8 million due to a reduction in Nova Scotia’s share of national taxable income, as corporate profits are projected to be negatively impacted by COVID-19.

Corporate Income Tax Revenue – 2016 to 2020 (Actual) and 2021 (Budget & Forecasted)

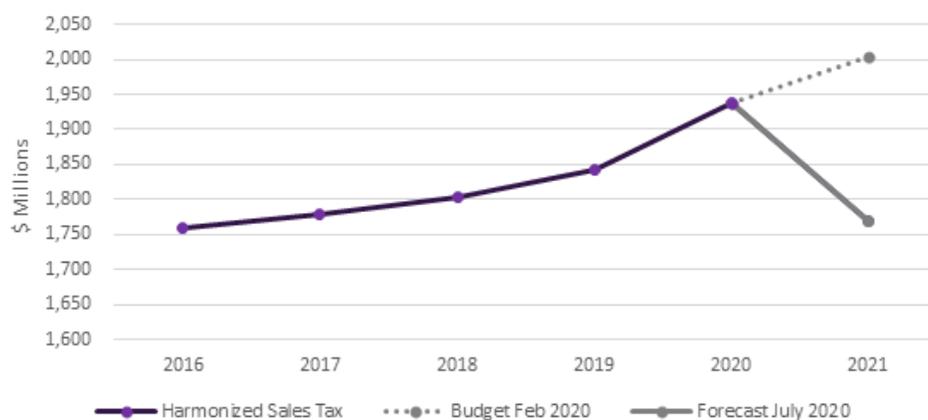


Source: Public Accounts 2017-18 to 2019-20 and the Forecast Update (July 29, 2020)

2.49 Harmonized Sales Tax revenues for 2020-21 are forecast to decrease from initial budgets by \$234.4 million, primarily from lower-than-anticipated consumer spending and reduced investment in new residential housing.



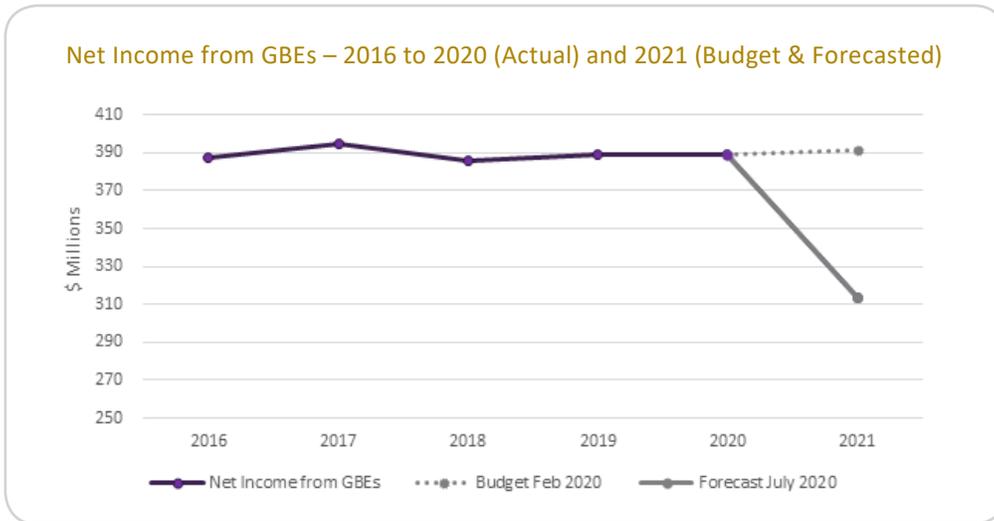
Harmonized Sales Tax Revenue – 2016 to 2020 (Actual) and 2021 (Budget & Forecasted)



Source: Public Accounts 2017-2018 to 2019-20 and the Forecast Update (July 29, 2020)

2.50 Revenue from Government Business Enterprises is forecast to be \$78.1 million lower than initial budgets due mainly to the following:

- Nova Scotia Gaming Corporation projects a decrease in net income primarily due to the suspension of video lottery terminals and casino operations in the Province, a measure implemented to reduce the spread of COVID-19,
- Halifax-Dartmouth Bridge Commission projects a decrease in net income due to lower-than-anticipated traffic volumes,
- Nova Scotia Liquor Corporation forecasts decreased net income mainly due to the reduction in sales to restaurants and bars as a result of restrictions related to the pandemic,
- Highway 104 Western Alignment Corporation forecasts a decrease in net income because of an anticipated reduction in passenger vehicle traffic.



Source: Public Accounts 2017-18 to 2019-20 and the Forecast Update (July 29, 2020)

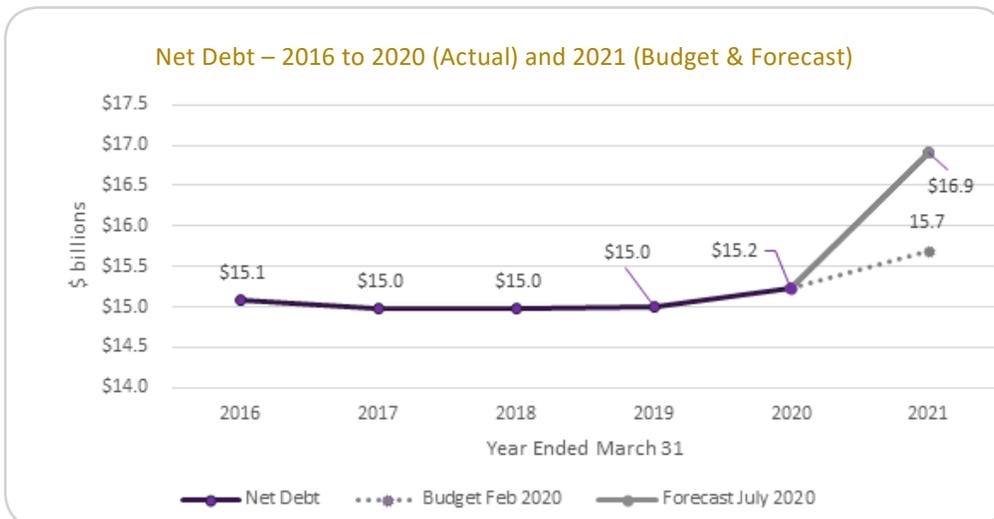
Impact to the Province’s Financial Position

2.51 This section shows how COVID-19 is projected to impact the Province’s financial position in comparison to the Province’s budgeted and actual figures pre-COVID-19.



The Province’s net debt is forecasted to increase by an additional \$1.2 billion during 2020-21

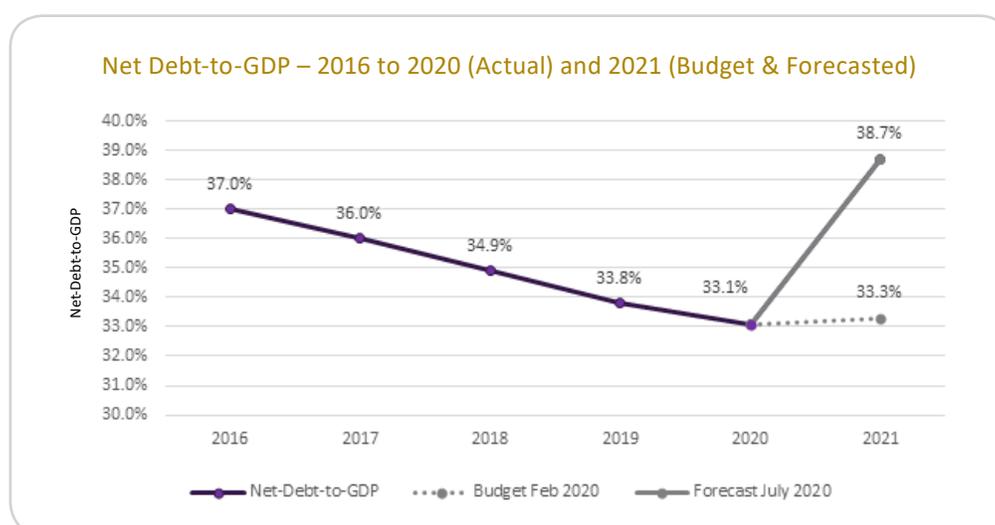
2.52 Net debt measures the degree to which the Province’s financial assets cannot cover its liabilities. As the graph below shows, net debt remained stable over the past five years at around \$15 billion. Although the Province, prior to COVID-19, initially budgeted net debt to be \$15.7 billion for 2020-21, net debt is now re-forecasted to total \$16.9 billion.



Source: Department of Finance and Treasury Board and the Forecast Update (July 29, 2020)

➔ The Province's Net Debt-to-GDP is forecasted to increase by 5.6% from 2019-20

- 2.53 Gross domestic product (GDP) is the total value of all goods and services produced within the province in a specific year and is one of the primary measures used to evaluate the financial condition of a province or country.
- 2.54 Net-Debt-to-GDP is used to assess the Province's ability to pay its financial obligations. A low ratio indicates a level of economic output that supports debt repayment. The higher the ratio, the more difficult it may be for the Province to pay its debt.
- 2.55 The following chart shows that the Province's Net Debt-to-GDP ratio consistently decreased over the past five years but is expected to significantly increase in 2020-21. Although the Province, prior to COVID-19, initially budgeted a Net Debt-to-GDP ratio of 33.3% for 2020-21, the Net Debt-to-GDP ratio is now re-forecasted to be 38.7%.



Source: Department of Finance and Treasury Board and the Forecast Update (July 29, 2020)

Looking Forward as the Province Recovers

- 2.56 The Province responded to COVID-19 through many programs and initiatives put in place to serve the immediate needs of individuals and businesses. However, the impacts of COVID-19 will be felt beyond the 2020-21 fiscal period. Other Provincial governments are developing long term economic recovery plans that communicate actions to improve business activity, promote safety and well-being of citizens, and help the economy rebound. As an economy rebounds, GDP grows, incomes rise and unemployment decreases.



2.57 Some Provinces, including Alberta and British Columbia, have released economic recovery plans. In those plans, the provinces outline strategies for creating jobs, increasing investment within the province, focusing attention on health care and introducing new initiatives to increase the resiliency of their provinces. It is expected that many jurisdictions will have long term economic recovery plans to help them regain their health, both physically and economically. The Province of Nova Scotia has not yet released its own long-term economic recovery plan.

Chapter 3

Follow-up on Cybersecurity, Fraud Risk Management and Internal Meetings and Employee Social Events Expenses

Key Messages

- The Province and its organizations are still developing cybersecurity programs
- Government departments and organizations are still developing their responses to fraud risks

Why We Did This Chapter

- To provide updates on important matters impacting the Province

Cybersecurity

- Service Nova Scotia and Internal Services still has not finalized regulations which govern cybersecurity and its government-wide cybersecurity risk register is still under development
- Cybersecurity training programs are not provided to all IT users
- Organizations indicate they are moving forward in managing cybersecurity programs:
 - Housing Nova Scotia and Nova Scotia Municipal Finance Corporation indicated they have plans to discuss and determine their responsibilities regarding cybersecurity
 - Halifax-Dartmouth Bridge Commission indicated it addresses cybersecurity risks through its enterprise risk management program
 - Nova Scotia Health Authority indicated it began a review of cybersecurity

Fraud Risk Management

- Ten departments, nine public service units and 19 government organizations still have not completed fraud risk assessments
- Nine government organizations do not have fraud policies
- Atlantic Provinces Special Education Authority does not have a fraud policy, has not completed a fraud risk assessment, nor has it evaluated the usefulness of a fraud tip hotline
- Six departments and three public service units have fraud training completion rates below 80 per cent
- Not all departments and organizations evaluated and reported on their fraud risk management program in 2019-20



Questions Nova Scotians May Want to Ask

1. How prepared was the Province to respond to cybersecurity attacks during COVID-19?
2. What is the plan and timeline for finalizing the regulations under the Shared Services Act of 2014?
3. Does the Province plan to provide cybersecurity training for all IT users?
4. How will those organizations without a cybersecurity governance structure or risk management plan address their cybersecurity risks?
5. What is the Province's plan for departments and public service units to complete fraud risk assessments and when will they be done?

3 Follow-up on Cybersecurity, Fraud Risk Management and Internal Meetings and Employee Social Events Expenses

Purpose

- 3.1 The purpose of this chapter is to inform Nova Scotians on important matters impacting the Province. This year we followed up on cybersecurity, fraud risk management, and internal meetings and employee social events expenses.
- 3.2 To follow up on matters from our October 2019 Financial Report, we inquired of management at government departments, public service units, and organizations. The information we report in this chapter is not audited. We did not verify the accuracy of management's responses and do not provide assurance on management's comments. We did however confirm the contents of this chapter with the named organizations.
- 3.3 This survey work was conducted during COVID-19 and we wish to thank all those who responded to our survey questions during a challenging period.

Follow-up on Cybersecurity

- 3.4 Background – In 2019, we highlighted the status of the Province's and certain government organizations' cybersecurity risk management programs. We found there was a varied understanding of cybersecurity responsibilities.
- 3.5 Cybersecurity incidents can be caused by external hackers, business partners, vendors, contractors, or employees who either intentionally or unintentionally compromise cybersecurity. The Province is not immune to cybersecurity incidents and without proper cybersecurity measures, departments and organizations are at risk of the following threats:
 - data breaches
 - information held for ransom
 - theft of financial assets
 - misuse of personal or financial information
 - disruption of operations
- 3.6 COVID-19 further demonstrates the need for effective cybersecurity programs; cybersecurity experts report that due to the COVID-19 pandemic, threats from cyberattacks have grown in volume, scope, and severity. The



Canadian Centre for Cybersecurity reported that cyber criminals are quick to take advantage of high-profile events, particularly those that cause worry and concern, like a global pandemic.

- 3.7 The Canadian Centre for Cybersecurity has seen an increase in malicious attempts to access, damage, or attack networks that allow workers to work remotely. As with other jurisdictions, the global pandemic forced many provincial employees to work from home, further increasing the risks to the Province's cybersecurity with employees accessing the network from remote, non-government locations.
- 3.8 Also, in March 2020, the Canadian Centre for Cybersecurity issued an alert about the elevated risk faced by health organizations involved in the national response to COVID-19. It was reported that cyberattacks on the health sector have risen in 2019-20. Cybersecurity experts say the sector is targeted more than any other industry in the country; health information can be even more valuable to hackers than a credit card.

➡ Service Nova Scotia and Internal Services still has not finalized regulations which govern cybersecurity

- 3.9 In 2019, we reported that regulations under the Shared Services Act of 2014 were not yet finalized by the Department of Service Nova Scotia and Internal Services (SNS-IS). These regulations will outline what cybersecurity support services the Department will provide to which crown corporations, departments, and public sector entities.
- 3.10 SNS-IS management indicated that as of March 31, 2020, these regulations were not yet finalized because the realignment of the Department's operations required the draft regulations to undergo further revisions. SNS-IS also indicated it had been necessary to refocus the efforts and resources of the Department to respond to the impacts of COVID-19, thus further delaying finalization of the regulations. Finalizing the regulations will assist organizations in understanding their responsibilities for addressing cybersecurity risks.

➡ Service Nova Scotia and Internal Services' government-wide cybersecurity risk register is still under development

- 3.11 Last year we reported that the Province may not be managing all of its cybersecurity risks because its government-wide cybersecurity risk register was still in development through SNS-IS. At that time, the risk register only included cybersecurity risks identified and assessed on certain IT services delivered by SNS-IS; it was not government-wide.
- 3.12 During this year's follow-up, SNS-IS indicated it now has a process to assess cybersecurity risks for new IT projects and it plans to make major changes



to existing IT systems for all government departments and agencies. There remains a risk that older systems still in use throughout government have not been assessed. SNS-IS informed us that assessment of cybersecurity risks for these older systems will be considered in the future. To complete a government-wide cybersecurity risk register SNS-IS will need to close the gap by assessing cybersecurity risks associated with older systems still used throughout government.

➡ Cybersecurity training programs are not provided to all IT users

3.13 A key activity for managing cybersecurity risks is establishing processes for awareness and training. Providing cybersecurity awareness and training enhances the security environment and enables users to better understand their roles and responsibilities. Every user of the Province's network needs to understand the potential cyberthreats and the cybersecurity policies put in place to protect against those risks.

3.14 This year, when we asked SNS-IS management about the Department's training and awareness strategy for cybersecurity, it indicated it:

- shares information and educational materials with employees and partners which include government's information privacy groups and the health sector
- requires security assessments for IT projects and initiatives before they are approved
- established new cybersecurity obligations that are incorporated into new contracts with vendors

3.15 Although SNS-IS indicated it makes users aware of cybersecurity risks, it does not have a government-wide training program for all IT users. SNS-IS management said mandatory training on cybersecurity is limited to only some of its employees and those who process credit card transactions. Every user of the Province's network should understand their role and responsibilities.

➡ Organizations indicate they are moving forward in managing their cybersecurity programs

3.16 All government departments and organizations that own data, applications, servers, or manage networks have responsibilities and roles in relation to cybersecurity regardless of the services received from SNS-IS or other IT service providers.

3.17 In 2019, we surveyed financially significant government organizations in the area of cybersecurity and reported that some did not have a cybersecurity governance structure in place and/or had not implemented a cybersecurity



risk management program as of March 31, 2019. In 2020, management of the following three organizations indicated they are moving forward in managing their cybersecurity risks.

- Halifax-Dartmouth Bridge Commission – The Commission advised us that while they don't have a cybersecurity risk management program, they have components of a program and address cybersecurity risks through their enterprise risk management review program.
- Housing Nova Scotia – The Department of Municipal Affairs and Housing indicated that Housing Nova Scotia employees became part of the Department in 2019 and therefore follow the provincial processes and practices for a shared IT environment. The Department said it was working towards developing a shared model approach which will include Housing Nova Scotia and its housing authorities and is expecting to follow the risk management program for cybersecurity risks for the Province.
- Nova Scotia Municipal Finance Corporation – Management indicated it follows provincial policies and practices and was attempting to initiate discussions with Service Nova Scotia and Internal Services to discuss cybersecurity governance and risk management specific to the Corporation.

3.18 Also in 2019, we reported that the Nova Scotia Health Authority did not have a cybersecurity governance structure in place. We reported the Authority relied on Service Nova Scotia and Internal Services to manage its cybersecurity risks. We also indicated that SNS-IS's risk frameworks did not take into consideration the Nova Scotia Health Authority's clinical data and applications.

3.19 This year, management of the Nova Scotia Health Authority indicated it began a review of cybersecurity to identify requirements that will support a cybersecurity risk management program at the Authority that will align with the Province's cybersecurity program.

Follow-up on Fraud Risk Management

3.20 Background – Fraud within the public sector is concerning because it can result in the loss of taxpayer assets and reduce the public's confidence in the government and its ability to safeguard assets. Therefore, it is important for the Province to have mechanisms in place to appropriately manage fraud risks.

3.21 To assist in managing fraud risks, in 2017 the Province implemented a fraud policy. The policy directly applies to all government departments, public service units, and crown corporations, and although not required, it was



recommended that other government organizations embrace the intent of the policy. Government's Fraud Risk Management Program is governed by a Fraud Risk Management Committee, with representation from a cross section of government departments and the Public Service Commission, and oversight from the Deputy Ministers' Audit Committee. Specific components of the program include:

- fraud policies and procedures
- fraud risk assessments
- fraud awareness and education
- fraud prevention and detection techniques
- well-documented framework for reporting and investigating allegations of fraud

➤ Improvements still required in fraud risk management programs in government

3.22 We followed up with government departments, public service units, and organizations on the status of certain aspects of their fraud risk management programs. The table below summarizes the status as of March 31, 2020. Appendices I, II, and III show the status of each individual department, public service unit, and organization.

Summary Status of Certain Aspects of a Fraud Risk Management Program	
March 31, 2020	
Government Departments	
Fraud risk assessment completed	7 Yes (41%) 10 No (59%)
Public Service Units	
Fraud risk assessment completed	8 Yes (47%) 9 No (53%)
Government Organizations	
Fraud policy implemented	42 Yes (82%) 9 No (18%)
Fraud risk assessment completed	32 Yes (63%) 19 No (37%)
Usefulness of fraud hotline evaluated	45 Yes (88%) 6 No (12%)

➤ Ten departments and nine public service units still have not completed a fraud risk assessment

3.23 Fraud risk assessment – The following 10 departments (59%) told us they had not completed a fraud risk assessment as of March 31, 2020.



Departments That Have Not Completed a Fraud Risk Assessment as of March 31, 2020	
Agriculture	Fisheries and Aquaculture
Communities, Culture and Heritage	Lands and Forestry
Education and Early Childhood Development	Municipal Affairs and Housing
Energy and Mines	Seniors
Environment	Service Nova Scotia and Internal Services

3.24 See Appendix V for the Chair’s 2020 update on fraud risk assessments and other aspects of Government’s Fraud Risk Management Program.

3.25 This year we surveyed the Province’s public service units (PSUs) to determine which PSUs completed fraud risk assessments. Management from the following nine PSUs (53%) told us their organization had not completed a fraud risk assessment as of March 31, 2020.

Public Service Units That Have Not Completed a Fraud Risk Assessment as of March 31, 2020	
Aboriginal Affairs	Office of Immigration
Elections Nova Scotia	Office of Regulatory Affairs and Service Effectiveness
Freedom of Information and Protection of Privacy Review Office	Office of Ombudsman
Human Rights Commission	Public Service Commission
Nova Scotia Police Complaints Commissioner	



Nineteen government organizations still have not completed a fraud risk assessment

3.26 The following 19 organizations told us they had not completed a fraud risk assessment as of March 31, 2020.

Government Organizations That Have Not Completed a Fraud Risk Assessment as of March 31, 2020	
Annapolis Valley Regional Centre for Education	Nova Scotia Farm Loan Board
Art Gallery of Nova Scotia	Nova Scotia Fisheries and Aquaculture Loan Board
Arts Nova Scotia	Nova Scotia Health Authority
Atlantic Provinces Special Education Authority	Nova Scotia Legal Aid Commission
Canadian Sports Centre Atlantic	Nova Scotia Primary Forest Products Marketing Board
Cape Breton-Victoria Regional Centre for Education	Nova Scotia Strategic Opportunities Fund Incorporated
Chignecto-Central Regional Centre for Education	Perennia Food & Agriculture Incorporated
Creative Nova Scotia Leadership Council	South Shore Regional Centre for Education



Government Organizations That Have Not Completed a Fraud Risk Assessment as of March 31, 2020 (Continued)	
Halifax Convention Centre Corporation	Tri-County Regional Centre for Education
Halifax Regional Centre for Education	

➔ Nine government organizations do not have a fraud policy

3.27 Fraud policy – Management of the following nine government organizations told us they had not implemented a fraud policy before March 31, 2020.

Government Organizations That Have Not Implemented a Fraud Policy as of March 31, 2020	
Annapolis Valley Regional Centre for Education	Nova Scotia Primary Forest Products Marketing Board
Atlantic Provinces Special Education Authority	South Shore Regional Centre for Education
Cape Breton-Victoria Regional Centre for Education	Strait Regional Centre for Education
Chignecto-Central Regional Centre for Education	Tri-County Regional Centre for Education
Conseil scolaire acadien provincial	

3.28 Last year, the Department of Education and Early Childhood Development noted it would implement a common fraud policy for all Regional Centres for Education and Conseil scolaire acadien provincial. However, the Department indicated that due to COVID-19, they were not able to implement the policy before March 31, 2020.

➔ Government organizations still have not evaluated the usefulness of a fraud tip hotline

3.29 Fraud tip hotline – Research shows that tips are the most common method of detecting fraud. In 2017 we first reported that no government department had a fraud tip hotline. The Province has since evaluated the usefulness of a fraud tip hotline and launched a fraud reporting service in November 2020 for government departments and certain public service unit employees.

3.30 Government organizations should also evaluate the usefulness of a fraud tip hotline. As of March 31, 2020, the following six government organizations indicated they had not evaluated the usefulness of a fraud tip hotline.

Government Organizations That Have Not Evaluated the Usefulness of a Fraud Tip Hotline as of March 31, 2020	
Atlantic Provinces Special Education Authority	Nova Scotia School Insurance Exchange
Canadian Sports Centre Atlantic	Nova Scotia School Insurance Program Association
Nova Scotia Primary Forest Products Marketing Board	Public Archives of Nova Scotia



➔ Atlantic Provinces Special Education Authority does not have a fraud policy, a fraud risk assessment, and has not evaluated the usefulness of a fraud hotline

3.31 As can be seen in the tables above, Atlantic Provinces Special Education Authority (APSEA) does not have a fraud policy, has not completed a fraud risk assessment, and has not evaluated the usefulness of a fraud hotline. APSEA is an inter-provincial organization with assets of over \$32 million and annual revenues that exceed \$18 million. It should have a fraud risk management program.

➔ Six departments and three public service units have fraud training completion rates below 80%

3.32 Fraud training – Following implementation of Government’s Fraud Policy in June 2017, fraud training became available and mandatory for employees of government departments and public service units.

3.33 The table below shows the six government departments and three public service units that reported fraud training completion rates below 80 per cent as of March 31, 2020. Appendices I and II show the reported fraud training completion rates of each individual department and public service unit.

Government Departments and Public Service Units with a Fraud Training Completion Rate Below 80% as of March 31, 2020	
	% of Employees who Completed Fraud Training
Government Department	
Community Services	54%
Lands and Forestry	61%
Transportation and Infrastructure Renewal	65%
Agriculture	67%
Fisheries and Aquaculture	69%
Energy and Mines	72%
Public Service Unit	
Public Prosecution Service	60%
Human Rights Commission	75%
Nova Scotia Securities Commission	75%

3.34 It is very important that departments and public service units have all their employees complete the mandatory fraud training. Low completion rates of mandatory fraud training diminish the Province’s ability to effectively manage fraud.



➔ Not all government departments and organizations evaluated and reported on their fraud risk management program in 2019-20

3.35 Regularly evaluating and reporting on fraud risk management operations helps a department or organization ensure it has designed an appropriate process that prevents and detects fraud in the current environment. Therefore, government departments and organizations should regularly evaluate and report on how well they are managing fraud risks.

3.36 In 2020 we followed up with departments and financially significant government organizations to see if they had evaluated and reported on their fraud risk management programs in 2019-20. The table below summarizes the responses. Appendices I and IV show the response of each individual department and organization.

Summary of Evaluating and Reporting on Fraud Risk Management Programs at Government Departments and Significant Organizations in 2019-20	
	Evaluated and Reported
Government Departments	6 Yes (35%) 11 No (65%)
Government Organizations	6 Yes (55%) 5 No (45%)

Follow-up on Internal Meetings and Employee Social Events Expenses

3.37 In 2018, we examined internal meetings and employee social events costs to determine if these expenses complied with existing policies, were appropriately supported, and correctly classified. From this work in 2018, we noted a lack of formalized policy across government in the areas of internal meetings and employee social events. We recommended that Executive Council provide guidance on internal meetings and employee social event expenses that clarified the nature and accounting of acceptable costs to ensure these expenses meet public expectations, are supportable, and well-documented.

3.38 As part of last year's follow-up for 2019, Executive Council informed us that discussions were ongoing and the goal was to implement corporate guidelines by January 1, 2020. Our follow-up with Executive Council in 2020 revealed that they updated, by January 1, 2020, the Province's Discretionary Spending Policy to include Guidelines for Meeting and Related Expenses.



Appendix I

Management's Responses from Government Departments Regarding Certain Aspects of a Fraud Risk Management Program as of March 31, 2020

Government Department	Fraud Risk Assessment	Evaluate and Report on Fraud Risk Management Process	% of Employees who Completed Fraud Training
Agriculture	No*	No	67%
Business	Yes	No	92%
Communities, Culture and Heritage	No*	No	100%
Community Services	Yes	No	54%
Education and Early Childhood Development	No	No	81%
Energy and Mines	No	No	72%
Environment	No*	No	94%
Finance and Treasury Board	Yes	Yes	88%
Fisheries and Aquaculture	No*	No	69%
Health and Wellness	Yes	No	80%
Justice	Yes	Yes	83%
Labour and Advanced Education	Yes	Yes	90%
Lands and Forestry	No*	No	61%
Municipal Affairs and Housing	No*	Yes	94%
Seniors	No	No	100%
Service Nova Scotia and Internal Services	No*	Yes	83%
Transportation and Infrastructure Renewal	Yes	Yes	65%
Total	7 Yes (41%) 10 No (59%)	6 Yes (35%) 11 No (65%)	-

* Management indicated progress is being made



Appendix II

Management's Responses from Public Service Units Regarding Certain Aspects of a Fraud Risk Management Program as of March 31, 2020

Public Service Unit	Fraud Risk Assessment	% of Employees who Completed Fraud Training
Aboriginal Affairs	No*	100%
Communications Nova Scotia	Yes	97%
Elections Nova Scotia	No	93%
Executive Council	Yes	100%
Freedom of Information and Protection of Privacy Review Office	No	100%
Human Rights Commission	No	75%
Intergovernmental Affairs	Yes	94%
Legislative Services	Yes	94%
Nova Scotia Police Complaints Commissioner	No	100%
Nova Scotia Securities Commission**	Yes	75%
Office of Immigration	No	92%
Office of Regulatory Affairs and Service Effectiveness	No	100%
Office of Strategy Management	Yes	100%
Office of the Auditor General	Yes	100%
Office of the Ombudsman	No	100%
Public Prosecution Service**	Yes	60%
Public Service Commission	No	91%
Total	8 Yes (47%) 9 No (53%)	-

* Management indicated progress is being made

** Nova Scotia Securities Commission and Public Prosecution Service have not completed fraud risk assessments specific to their public service unit; the risks in those units have been considered within the fraud risk assessment of the Department of Finance and Treasury Board. The fraud risk assessment response provided here is the response of the Department of Finance and Treasury Board.



Appendix III

Management's Responses from Government Organizations Regarding Certain Aspects of a Fraud Risk Management Program as of March 31, 2020

Government Organization	Fraud Policy	Fraud Risk Assessment	Evaluated Usefulness of Fraud Hotline
A. Education Sector			
Annapolis Valley Regional Centre for Education	No*	No*	Yes
Atlantic Provinces Special Education Authority	No	No	No
Cape Breton-Victoria Regional Centre for Education	No*	No*	Yes
Chignecto-Central Regional Centre for Education	No*	No*	Yes
Conseil scolaire acadien provincial	No*	Yes	Yes
Halifax Regional Centre for Education	Yes	No*	Yes
Nova Scotia Community College	Yes	Yes	Yes
Nova Scotia Education Common Services Bureau	Yes	Yes	Yes
Nova Scotia School Insurance Exchange	Yes	Yes	No
Nova Scotia School Insurance Program Association	Yes	Yes	No
South Shore Regional Centre for Education	No*	No*	Yes
Strait Regional Centre for Education	No*	Yes	Yes
Tri-County Regional Centre for Education	No*	No*	Yes

B. Health Sector			
Izaak Walton Killam Health Centre	Yes	Yes	Yes
Nova Scotia Health Authority	Yes	No*	Yes

C. Sizeable Organizations			
Art Gallery of Nova Scotia	Yes	No	Yes
Canada-Nova Scotia Offshore Petroleum Board	Yes	Yes	Yes
Develop Nova Scotia	Yes	Yes	Yes
Halifax Convention Centre Corporation	Yes	No	Yes
Halifax-Dartmouth Bridge Commission	Yes	Yes	Yes
Harbourside Commercial Park Inc.	Yes	Yes	Yes
Highway 104 Western Alignment Corporation	Yes	Yes	Yes
Housing Nova Scotia	Yes	Yes	Yes
Nova Scotia Business Inc.	Yes	Yes	Yes
Nova Scotia Crop and Livestock Insurance Commission	Yes	Yes	Yes
Nova Scotia Farm Loan Board	Yes	No	Yes
Nova Scotia Fisheries and Aquaculture Loan Board	Yes	No	Yes
Nova Scotia Gaming Corporation	Yes	Yes	Yes



Management's Responses from Government Organizations Regarding Certain Aspects of a Fraud Risk Management Program (Continued)

Government Organization	Fraud Policy	Fraud Risk Assessment	Evaluated Usefulness of Fraud Hotline
C. Sizeable Organizations			
Nova Scotia Innovation Corporation	Yes	Yes	Yes
Nova Scotia Lands Inc.	Yes	Yes	Yes
Nova Scotia Legal Aid Commission	Yes	No	Yes
Nova Scotia Liquor Corporation	Yes	Yes	Yes
Nova Scotia Municipal Finance Corporation	Yes	Yes	Yes
Nova Scotia Power Finance Corporation	Yes	Yes	Yes
Nova Scotia Utility and Review Board	Yes	Yes	Yes
Public Archives of Nova Scotia	Yes	Yes	No
Tourism Nova Scotia	Yes	Yes	Yes

D. Others			
Arts Nova Scotia**	Yes	No*	Yes
Canadian Sports Centre Atlantic	Yes	No	No
Council of Atlantic Premiers	Yes	Yes	Yes
Creative Nova Scotia Leadership Council**	Yes	No*	Yes
Gambling Awareness Foundation of Nova Scotia	Yes	Yes	Yes
Invest Nova Scotia Board	Yes	Yes	Yes
Nova Scotia Primary Forest Products Marketing Board***	No	No	No
Nova Scotia Strategic Opportunities Fund Incorporated****	Yes	No	Yes
Perennia Food & Agriculture Incorporated	Yes	No	Yes
Resource Recovery Fund Board Inc.	Yes	Yes	Yes
Schooner Bluenose Foundation	Yes	Yes	Yes
Sherbrooke Restoration Commission	Yes	Yes	Yes
Sydney Steel Corporation	Yes	Yes	Yes
Sydney Utilities Limited	Yes	Yes	Yes

Total	42 Yes (82%) 9 No (18%)	32 Yes (63%) 19 No (37%)	45 Yes (88%) 6 No (12%)
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* Management indicated progress is being made

** Arts Nova Scotia and Creative Nova Scotia Leadership Council have not completed fraud risk assessments specific to their organization; the risks in those units have been considered within the fraud risk assessment of the Department of Communities, Culture and Heritage. The fraud risk assessment response provided here is the response of the Department of Communities, Culture and Heritage.

*** Nova Scotia Primary Forest Products Marketing Board has not implemented a fraud policy, completed a fraud risk assessment or evaluated the usefulness of a fraud tip hotline. The Board has been inactive with no Board appointees or staff since February 26, 2018.

**** Nova Scotia Strategic Opportunities Fund Incorporated has not completed a fraud risk assessment as there are no staff and there is no activity. The Fund is being wound down with the final few transactions administered by the Department of Finance and Treasury Board.



Appendix IV

Management's Responses from 11 of the Province's Financially Significant Organizations Regarding Evaluating and Reporting on the Effectiveness of Their Fraud Risk Management Program in 2019-20

Government Organization	Evaluate and Report on Effectiveness of Fraud Risk Management
Develop Nova Scotia	Yes
Halifax-Dartmouth Bridge Commission	Yes
Halifax Regional Centre for Education	No
Housing Nova Scotia	No
Izaak Walton Killam Health Centre	Yes
Nova Scotia Community College	Yes
Nova Scotia Farm Loan Board	No
Nova Scotia Health Authority	Yes
Nova Scotia Legal Aid Commission	No
Nova Scotia Liquor Corporation	No
Nova Scotia Municipal Finance Corporation	Yes
Total	6 Yes (55%) 5 No (45%)



Appendix V

Update from the Chair of the Deputy Minister's Audit Committee on Government's Fraud Risk Management Program

The Deputy Ministers' Audit Committee oversees the Province of Nova Scotia's Fraud Risk Management Program. The comprehensive Program includes a fraud governance structure, fraud policy and reporting procedures, fraud training and awareness, fraud risk assessments, fraud investigations, third party fraud reporting services (i.e. fraud tip hotline) and continuous improvement activities, applicable to Government departments and some public service units. Fraud risk management activities related to other public service units and Government organizations noted within the results of this report are not within the scope of their authority. The following response is related to activities within the Deputy Ministers' Audit Committee scope of responsibility.

Government departments and certain public service units have a Fraud Risk Management Program to prevent, deter and detect fraud, including managing the risk of fraud. The Program is governed by a Fraud Risk Management Committee, with representation from a cross section of government departments and the Public Service Commission, and oversight from the Deputy Ministers' Audit Committee. A formal Mandate for the Fraud Risk Management Committee outlines its purpose, authority, responsibilities and composition. The step-by-step implementation of this Program is an explicit demonstration of Government's commitment to a strong ethical workforce and a sustainable culture of respect, integrity, diversity, accountability and the public good.

A Fraud Policy was included in Management Manual 200 in 2017 and is reviewed and updated annually as required. The Policy is supported by detailed procedures for reporting and investigating fraud. In addition, mandatory fraud awareness training has been available online for government employees since the Policy was released. This has been completed by more than 9,567 employees as of July 2020.

Government departments and certain public service units are committed to the completion of fraud risk assessments to identify and assess the likelihood and significance of specific fraud schemes and risks, evaluate control activities, and implement action to address fraud risks. Fraud risk assessments are completed and in progress; however, the completion rates need to improve. Government is supporting this effort with the use of a fraud risk assessment framework to ensure assessments meet an appropriate standard and are consistently applied; a fraud risk self-assessment toolkit distributed to the departments to assess and identify areas at a high risk for fraud; a streamlined process for procuring fraud risk assessments from a third party service provider; and an experienced team of fraud investigators with experience completing fraud risk assessments.

An independent third-party vendor manages the Provincial Fraud Reporting Service (e.g. hotline, webform, email reporting). The reporting service is available to Government departments and certain public service unit employees 24 hours a day, 365 days per year. This reporting service was launched in November 2020.

• • • **Office of the Auditor General** • • •

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