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Mr. Simon P d'Entremont  
Deputy Minister  
Economic and Rural Development and Tourism  
1660 Hollis Street  
Halifax NS

January 14, 2015

Dear Mr. d'Entremont:

KPMG was engaged by the Province of Nova Scotia Department of Economic and Rural Development and Tourism (the "Department") on July 24, 2014 to:

- 1 Provide strategic advice to the Department regarding the continuation of ferry service between Yarmouth, Nova Scotia and Portland, Maine (the "Service");
- 2 Perform certain specified procedures in assisting the Department with validating costs incurred by Nova Star (the "Operator") while providing the Service.

With respect to the specified procedures, on August 11, 2014 the scope of these procedures were refined and agreed to by the Department. It was agreed that we would conduct the specified procedures in accordance with professional standards of the CPA Handbook Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information other than Financial Statement* ("Section 9100"). Section 9100 reports are not audits of financial information. Our reporting is limited to factual results from performing the procedures which we have outlined below.

Specified procedures were applied to two separate reports provided by the Operator. There were no findings to report as a result of performing our procedures with the exception of procedure number 3 on the schedule of operating expenses. The detailed procedures performed are as follows:

Schedule of Start-up Expenditures for the period from inception to April 30, 2014

1. Recalculated the mathematical accuracy of the Schedule.
2. Obtained a detailed listing of start-up costs incurred, recalculated the mathematical accuracy of the listing, and agreed the total of the detailed listing to the Schedule.
3. For each item listed on the detailed listing of start-up costs we performed the following: <ol style="list-style-type: none"><li>a. inspected supporting documentation for the expenditure;</li><li>b. agreed the amount on the listing to the supporting document;</li><li>c. for amounts that were not expressed in Canadian dollars, recalculated the expenditure based on the disclosed exchange rate used in the preparation of the Schedule; and</li><li>d. observed that the expenditure was incurred during the period from inception to April 30, 2014.</li></ol>



## Schedule of Operating Expenditures for the period from inception to September 30, 2014

1. Recalculated the mathematical accuracy of the Schedule.
2. Obtained a detailed listing of operating costs incurred, recalculated the mathematical accuracy of the listing, and agreed the total of the detailed listing to the Schedule.
3. For a sample of operating expenditures aggregating a minimum of 80% of the total operating expenditures cost we performed the following: <ol style="list-style-type: none"><li>inspected supporting documentation for the expenditure;</li><li>agreed the amount on the listing to the supporting document;</li><li>for amounts that were not expressed in Canadian dollars, recalculated the expenditure based on the disclosed exchange rate used in the preparation of the Schedule; and</li><li>observed that the expenditure was incurred during the period from inception to September 30, 2014.</li></ol>

The Department is responsible for ensuring that the procedures listed above are acceptable for its intended purpose. Through our discussions with the Department, we understand that the purpose of the specified audit procedures was to validate whether the expenditures incurred by the Operator were supported by evidence of a good or service being provided.

As noted in the procedures above, the scope of the specified procedures work related to start-up costs included reviewing invoices in support of 100% of the expenditures reported in the list of start-up costs. The scope of the specified procedures work related to operating costs included randomly selected invoices in support of expenditures reported in the listing of operating costs, obtaining coverage of a minimum of 80% of expenditures reported.

In conducting these procedures we can report that the work involved included the following:

- Meetings with management of the Operator to gain an understanding of the Operator's accounting system and preparation of the financial information to which the specified procedures were applied;
- Testing the mathematical accuracy of the related cost schedules;
- For operating costs, identification of sample of expenditures totaling a minimum of 80% in relation to which supporting documentation would be reviewed from the detail provided by the Operator;
- Reviewing varying forms of documentation in support of the expenditures;
- Validating our findings with the Operator's management; and
- Completing our report on the applying the specified procedures based on the reporting requirements of Section 9100.

Our factual findings as a result of applying the agreed to procedures to assist the Department in completing their review are summarized below:

### *Schedule of Start-up Expenditures*

- We have no findings to report as a result of performing the agreed to procedures as we were able to perform the procedures without exception (all costs were found to be supported).



*Schedule of Operating Expenditures*

- We have no findings to report as a result of performing procedures 1 and 2 as we were able to perform the procedures without exception.
- Of the 1,037 transactions selected with an aggregate value of \$25,480,288 for procedure 3, the Operator was not able to provide supporting documentation for 35 transactions with an aggregate value of \$79,265. This represents 0.3% of the aggregated value tested.

We continue to provide strategic advice when requested by the Department regarding the continuation of the Service.

*KPMG LLP*

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