Chapter 1
Municipal Employees' Pension Plan

1.0 Main Points

This chapter contains the results of our 2012 audit of the Municipal Employees' Pension Plan (Plan). The Plan's 2012 financial statements are reliable, it complied with its governing authorities, and it had effective controls to safeguard public resources except that additional financial reporting controls are required to ensure that the Plan's financial statements disclose sufficient and appropriate information relating to its investments.

2.0 Introduction

The Plan is registered under the *Income Tax Act* (Canada) and is governed by *The Municipal Employees' Pension Act* and related regulations, as well as *The Pension Benefits Act, 1992* and related regulations. The Plan is a multi-employer "defined benefit" plan. In 2012, 733 employers participated in the Plan of which the majority are towns and villages, and rural municipalities.

In 2012, the Plan had more than 18,000 active members and 4,500 pensioners. Active members contribute a fixed percentage of their salary and employers match these contributions. Pensioners receive formula-based pension, disability, death, and termination benefits.

The Municipal Employees' Pension Commission (Commission) is responsible for administering the Plan including holding in trust and investing the money of the Plan. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

The Commission has engaged the Public Employee Benefits Agency (PEBA) as the plan administrator. On the Commission's behalf, PEBA manages the Plan's contributions, pensions, and plan assets.

At December 31, 2012, the Plan held $1.6 billion in total assets (2011 - $1.4 billion) and had liabilities of $1.4 billion (2011 - $1.6 billion). For the year ended December 31, 2012, the Plan had total revenues of $287.7 million (2011 - $77.6 million), and total expenses of $102.1 million (2011 - $82.1 million).

3.0 Audit Conclusions and Scope

Our Office worked with Deloitte LLP, the appointed auditor, to carry out the audit of the Plan. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.[1]

[1]See our website at www.auditor.sk.ca.

In our opinion, for the year ended December 31, 2012:

- **The Commission had effective rules and procedures to safeguard the Plan's public resources except for the matter reported in this chapter**

- **The Commission complied with the following authorities governing the Plan's activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

  The Municipal Employees' Pension Act
  The Municipal Employees' Pension Regulations
  The Pension Benefits Act, 1992
  The Pension Benefits Regulations, 1993
  Pension Benefits Standards Regulation 1985 (Canada)
  Income Tax Act (Canada) [Sections: 147.1 - 147.3]
  Income Tax Act Regulations (Canada) [Sections: 8501 - 8505, 8512, 8514, 8520]
  The Tabling of Documents Act, 1991

- **The Plan had reliable financial statements**

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of the Plan's controls. The CICA defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

We examined the effectiveness of the Plan's financial-related controls used to administer the revenues, expenses, assets, and liabilities noted in **Section 2.0**. Also, we examined the effectiveness of the controls it used to keep reliable financial records and prepare reliable financial reports.

4.0 Key Finding and Recommendation

In this section, we set out a key finding and the resulting recommendation.

4.1 Additional Financial Reporting Controls Required

The Commission needs additional financial reporting controls to ensure those responsible for the preparation of the Plan's financial statements obtain sufficient information to enable appropriate disclosure of risks relating to investments in the Plan's financial statements.

Many different types of investments exist. Each has a different level of risk and expected return. Consistent with the Statement of Investment Policies and Procedures approved by the Municipal Employees' Pension Commission, the Plan uses strategies and invests in investments (such as derivatives and repurchase agreements) to manage risks and investment returns.[2,3]

[2] Derivatives are contracts whose value is derived from the performance of underlying market factors, such as market securities or indices, interest rates, currency exchange rates, or commodity, credit, or equity prices.
[3] A repurchase agreement is a contract entered into between two counterparties for the sale of securities together with an agreement for the seller to buy back the securities at a later date.

Accounting standards require entities to provide certain disclosures in their financial statements that enable users of the statements to evaluate:

- The significance of such investments
- The nature and extent of risks arising from these investments and how the entity manages those risks

The audit identified that the Plan's financial statements presented for audit did not fully disclose related investment risks. For example, management did not disclose in the draft financial statements the effect changes in the value of repurchase agreements have on bonds pledged as collateral in 2012 (sensitivity analysis).

Management corrected the financial statements prior to their finalization and submission for approval by the Commission.

The Plan needs additional financial reporting controls, such as use of checklists and discussions with PEBA's investment staff, to confirm understanding of the financial reporting implications of its investments. This would help the Plan's management ensure that the financial statements presented for audit appropriately disclose all significant risks related to investments.

1. **We recommend that the Municipal Employees' Pension Commission direct the Plan's administrator to establish additional financial reporting controls to ensure those responsible for the preparation of the Plan's financial statements obtain sufficient information to appropriately disclose risks relating to investments in the Plan's financial statements.**