

Chapter 1

Municipal Employees' Pension Plan

1.0 MAIN POINTS

This chapter contains the results of our 2013 audit of the Municipal Employees' Pension Plan (Plan). The Plan's 2013 financial statements are reliable and it complied with its governing authorities. The Plan also had effective controls to safeguard public resources except that additional financial reporting controls are required to ensure accurate reporting and appropriate disclosure of investment risks in its financial statements.

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 benefit¹ plan.

In 2013, 733 employers participated in the Plan, of which the majority were towns and villages, and rural municipalities. In 2013, 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. Members receive formula-based pension, disability, death, and termination benefits.

The Municipal Employees' Pension Commission (Commission) is responsible for administering the Plan including holding 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 pension benefits.

The Commission has engaged the Public Employees 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, 2013, the Plan held \$1.7 billion in total assets (2012 – \$1.6 billion restated) and had liabilities of \$1.5 billion (2012 – \$1.4 billion). For the year ended December 31, 2013, the Plan had total revenues of \$242.4 million (2012 – \$270.1 million restated), and total expenses of \$119.0 million (2012 – \$102.1 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*.²

¹ A defined benefit pension plan is a pension plan that specifies the pension that members of the plan receive on retirement and/or the method that determines the pension.

² See our website at www.auditor.sk.ca.



In our opinion, for the year ended December 31, 2013:

- › **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 related 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
The Tabling of Documents Act, 1991
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 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 Commission'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 outline key observations from our assessments and the resulting recommendations.

4.1 Additional Financial Reporting Controls Required

We recommended 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. (2013 Report – Volume 1; Public Accounts Committee agreement January 13, 2014)

Status – Partially Implemented

The Commission invests Plan money in many different types of investments. Some of the investments are sophisticated in nature. Some investments require management to calculate estimates for year-end financial reporting. As a result, additional financial

reporting controls are required to ensure accurate reporting and appropriate disclosure of investment risks in the financial statements.

Our *2013 Report – Volume 1*, Chapter 1, reported that the Commission needs additional financial reporting controls to ensure those responsible for the preparation of the Plan's financial statements obtain sufficient information to appropriately disclose risks related to investments in the Plan's financial statements. These additional financial reporting controls, such as the use of checklists and discussions with PEBA's investment staff, would help confirm understanding of the investments and ensure accurate financial reporting of the Plan's investments.

In November 2013, a \$17.6 million error was discovered in the calculation of the 2012 market value of the infrastructure assets.³ The asset and revenue amounts reported in the 2012 financial statements were too high. As a result, the 2012 amounts reported in the 2013 financial statements were restated (corrected). Had the controls previously recommended been operating effectively throughout the period, this error may have been identified sooner.

In response to this error, PEBA implemented additional financial reporting controls, such as the use of checklists and working collaboratively with PEBA's investment services staff. An additional level of review and approval of the investment numbers is also performed by PEBA's investment staff to ensure accurate reporting and appropriate disclosure of investment risks in the financial statements.

³ Infrastructure assets are investments made in companies that operate basic physical systems such as airports and ports, and gas, electrical, and waste management systems.

