

# Chapter 1

## Municipal Employees' Pension Plan

### 1.0 MAIN POINTS

This chapter contains the results of our 2014 audit of the Municipal Employees' Pension Plan (Plan). The Plan's 2014 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 the Plan's 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 benefit<sup>1</sup> plan.

In 2014, 738 employers participated in the Plan, of which the majority were towns, villages, and rural municipalities. In 2014, the Plan had more than 15,000 active members and more than 5,000 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 Plan's money. 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) to administer the Plan. On the Commission's behalf, PEBA manages the Plan's contributions, pensions, and plan assets.

At December 31, 2014, the Plan held \$2.0 billion in total assets (2013 – \$1.7 billion) and had liabilities of \$1.7 billion (2013 – \$1.5 billion). For the year ended December 31, 2014, the Plan had total revenues of \$438.9 million (2013 – \$242.4 million), and total expenses of \$117.0 million (2013 – \$119.0 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*.<sup>2</sup>

<sup>1</sup>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.

<sup>2</sup> See our website at [www.auditor.sk.ca](http://www.auditor.sk.ca).



**In our opinion, for the year ended December 31, 2014:**

- › **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 Executive Government Administration Act [section 13]*  
*Pension Benefits Standards Regulations, 1985 (Canada)*  
*Income Tax Act (Canada) [sections: 147.1 – 147.3]*  
*Income Tax Act Regulations (Canada) [sections: 8501 – 8505, 8512, 8514, and 8520]*

- › **The Plan had reliable financial statements**

We used the control framework published by CPA Canada to make our judgments about the effectiveness of the Commission's controls. The control framework defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

Our audit work focused on investments and pension obligations (including related revenue and expenses) given their significance and the complex estimates involved in determining these balances. Our audit focused on investment confirmations, review of reasonability of estimates, and use of the Plan's actuarial report. We also examined a sample of pension payments to verify the eligibility and accuracy of the monthly pension benefit and compliance with governing authorities.

## 4.0 KEY FINDINGS AND RECOMMENDATION

In this section, we outline key observations from our assessments and the resulting recommendation.

### 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 which are sophisticated in nature and require management to calculate estimates for

year-end financial reporting purposes (e.g., private equities and infrastructure). As a result, additional financial reporting controls are required to ensure accurate reporting and appropriate disclosure of investment risks in the financial statements.

During 2014, PEBA implemented some additional financial reporting controls, including increased discussions between investment and accounting staff, and review of the Plan's financial statements by investment staff. However, further scrutiny is required given the accounting complexities of the Plan's investments. Specifically, PEBA needs to document its review of various private equity and infrastructure agreements and its assessment of any related financial reporting or accounting implications. Without such an assessment, the Plan's financial statements may not include sufficient information regarding the Plan's infrastructure and private-equity investments.

