

Chapter 2

Northern Municipal Trust Account

1.0 MAIN POINTS

The Ministry of Government Relations (Ministry) administers the Northern Municipal Trust Account (NMTA). NMTA's 2014 financial statements are reliable. In 2014, the Ministry complied with the authorities governing NMTA's activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

The Ministry had effective rules and procedures for NMTA to safeguard public resources except it did not always prepare accurate quarterly financial reports or require management to carry out a detailed review of quarterly and year-end financial information prepared by staff.

2.0 INTRODUCTION

The Northern Municipalities Act, 2010 (Act) establishes the Northern Municipal Trust Account (NMTA) and its Management Board (Board). NMTA is a special account and has two main purposes:

- › To assist northern municipalities in providing quality services to their residents by funding operating and capital needs
- › To administer and fund the municipal functions of the Northern Saskatchewan Administration District (NSAD)

The Act makes the Ministry responsible for administering NMTA. The Board, appointed by Cabinet, advises the Minister on the allocations of northern operating and capital grants, and any changes to the law concerning NMTA. The Ministry has assigned about 11 full-time equivalent staff, located primarily in La Ronge, to directly administer NMTA.

NMTA includes all revenues of the NSAD and northern operating and capital grants (e.g., grants for operations, water and sewer systems, and municipal facilities) received from the General Revenue Fund.

In 2014, NMTA had revenues of \$30.7 million (2013 – \$32.0 million) including \$20.6 million (2013 – \$22.4 million) from the General Revenue Fund, expenses of \$30.2 million (2013 – \$31.0 million) including grants of \$23.6 million (2013 – \$26.3 million). At December 31, 2014, it held assets of \$36.1 million (2013 – \$35.5 million) including capital assets of \$4.5 million (2013 – \$4.8 million).



3.0 AUDIT CONCLUSIONS AND SCOPE

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

- › **The Ministry of Government Relations had effective controls over the Northern Municipal Trust Account with respect to rules and procedures to safeguard public resources except for the matters described in this chapter**
- › **The Ministry of Government Relations complied with the following authorities governing the Northern Municipal Trust Account's activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Northern Municipalities Act, 2010
The Northern Municipalities Regulations
The Financial Administration Act, 1993
Orders in Council pursuant to the above legislation and regulations

- › **The Northern Municipal Trust Account had reliable financial statements**

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

We focused our audit effort on certain revenues (e.g., lease fees, taxation, and utility and fuel sales) and expenses. For revenues, we verified NMTA's monitoring of lease and land sales revenues collected by the Ministry of Environment. We also assessed the reasonability of management's estimate of lease revenue in the financial statements. We tested tax levies to verify the accuracy of levy calculations and penalties/discounts. We tested fuel sales revenue to verify the accuracy of fuel sales reported. For expenses, we tested payments to verify their accuracy, completeness, and compliance with governing authorities.

4.0 KEY FINDINGS AND RECOMMENDATIONS

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

4.1 Preparation of Quarterly Financial Reports

In 2014, NMTA did not always prepare complete and accurate quarterly reports.

The Ministry has established policies for NMTA (NMTA policies) that require staff to prepare quarterly financial reports for the Assistant Deputy Minister of Government Relations' review. Information in these reports helps senior management assess NMTA's financial and operational performance throughout the year so they can make informed decisions.

The quarterly financial reports are to include statements of financial position, operations, and cash flow, key financial information (e.g., prior-year actuals, current-year budget, current year-to-date actuals, current year forecast), and provide reasons for differences between current-year forecast and budget.

We found that the reports for the first three quarters did not:

- › Include lease revenue earned during each quarter. By December 31, 2014, NMTA earned \$4.2 million in lease revenue.
- › Always reflect accurate forecasted amounts, with many of the forecasted amounts remaining unchanged from the prior reports. We noted multiple instances where the year-to-date actual amounts were greater than the forecasted amount (i.e., NMTA incurred more expenses/received more revenues than it forecasted through the remainder of the year).

Without accurate reports, senior management may not have the information they need to make informed decisions.

1. **We recommend that the Ministry of Government Relations prepare accurate quarterly financial reports for the Northern Municipal Trust Account, as its policies require.**

4.2 Supervision of Staff Recording NMTA Information

Management did not adequately supervise staff responsible for recording NMTA financial information.

In 2014, NMTA experienced higher than normal employee turnover, resulting in many employees filling new roles.

We found that employees did not have a clear understanding of their new roles or NMTA's established policies and procedures. We identified several instances where policies were not properly followed. For example:

- › NMTA's policies require that staff verify the existence and condition of capital assets periodically (at least every two years) by physically inspecting and counting the assets. The last verification occurred in 2012.
- › NMTA's policies require staff to verify that invoices are coded to proper accounts prior to invoices being entered into NMTA's accounting records (the general ledger). During the audit, we identified multiple instances where staff recorded invoices to the incorrect accounts.
- › NMTA's policies require staff and management to leave evidence of preparation and independent review on all journal entries. During the year, we identified a few instances where staff did not leave evidence of independent review and approval on the journal entries.



- › NTMA did not follow its policies for preparing accurate quarterly financial reports. (see **Section 4.1**).

Having new or inexperienced staff increases the need for staff training and supervision. Supervision (e.g., detailed review of quarterly financial reports, journal entries, and reconciliations) helps ensure staff clearly understand and carry out their responsibilities. Also, it provides an opportunity to identify issues or misunderstandings and take corrective actions on a timely basis. Without adequate supervision, errors in NMTA's financial records may occur without ready detection.

2. We recommend that the Ministry of Government Relations require management to carry out a detailed review of quarterly and year-end financial information (e.g. financial reports, journal entries, reconciliations) prepared by the staff responsible for recording Northern Municipal Trust Account financial information.