

## Chapter 12

### Northern Municipal Trust Account

#### 1.0 MAIN POINTS

The Ministry of Government Relations (Ministry) administers the Northern Municipal Trust Account (NMTA). NMTA's 2015 financial statements are reliable. In 2015, the Ministry complied with the authorities governing NMTA's activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

Other than for the following, the Ministry had effective rules and procedures for NMTA to safeguard public resources. The Ministry did not always prepare timely and accurate bank reconciliations or prepare accurate quarterly financial reports. In addition, the Ministry did not adequately supervise staff responsible for recording NMTA financial information (e.g., management did not sufficiently review quarterly and year-end NMTA financial information).

#### 2.0 INTRODUCTION

Under *The Northern Municipalities Act, 2010* (Act), the NMTA is a special account with two main purposes:

- › To assist northern municipalities in providing quality services to their residents through operating and capital grants (e.g., for water and sewer systems, municipal facilities and equipment)
- › To administer and finance the municipal functions and operations of the Northern Saskatchewan Administration District<sup>1</sup> (e.g., provide water)

The Act makes a Board, appointed by Cabinet, responsible for giving the Minister of Government Relations advice on the allocations of northern operating and capital grants, and changes to laws concerning NMTA. It makes the Ministry of Government Relations responsible for administering NMTA. The Ministry has assigned about 11 full-time equivalent staff, located primarily in La Ronge, to administer NMTA.

In 2015, NMTA had revenues of \$33.4 million (2014: \$30.7 million) including \$20.3 million (2014: \$20.5 million) from the Ministry and expenses of \$26.0 million (2014: \$30.2 million) including grants of \$20.9 million (2014: \$23.6 million). At December 31, 2015, it held assets of \$44.3 million (2014: \$36.1 million) including capital assets of \$4.7 million (2014: \$4.5 million).

<sup>1</sup>The Northern Saskatchewan Administration District is a geographical area defined under section 74 of *The Northern Municipalities Regulations* that includes 11 northern settlements and 14 resort subdivisions.



## 3.0 AUDIT CONCLUSIONS AND SCOPE

In our opinion, for the year ended December 31, 2015:

- › **The Ministry of Government Relations had effective rules and procedures over NMTA to safeguard public resources except for the matters described in this chapter**
- › **The Ministry of Government Relations complied with the following authorities governing NMTA'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

- › **NMTA 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., taxation, utility, leases, and fuel sales). For revenues, we assessed 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 its financial statements. We tested the accuracy of levy calculations and penalties or discounts, and fuel sales.

## 4.0 KEY FINDINGS AND RECOMMENDATIONS

### 4.1 Proper and Timely Reconciliation of Bank Accounts Needed

In 2015, the Ministry did not reconcile NMTA's bank accounts properly and prepared most bank reconciliations later than expected. At December 31, 2015, NMTA had cash of almost \$29 million.

Contrary to policy, 10 out of 12 monthly bank reconciliations were not prepared before the end of the following month.<sup>2</sup> The Ministry did not prepare the February, March, and April 2015 reconciliations until late September 2015. While management initialled bank reconciliations to show review and approval, it did not leave evidence of when the reconciliations were approved.<sup>3</sup> As a result, the Ministry could not show whether it reviewed reconciliations on a timely basis.

<sup>2</sup>NMTA's policies require staff to reconcile the recorded bank balance to the bank's records by the end of the following month.

<sup>3</sup>NMTA's policies require management to independently review and approve the reconciliations.

For each month during 2015, the Ministry did not properly reconcile the bank account to the accounting records. It did not investigate and resolve differences between its bank account balances and accounting records. For months other than December, the unreconciled differences were small.

In the December 2015 reconciliation, a significant unreconciled difference existed. Management incorrectly adjusted its financial records for this difference. Upon further investigation, management identified the error, and subsequently corrected its financial records.

Proper bank account reconciliations check the accuracy and reliability of NMTA's accounting records (e.g., detect unauthorized payments or unrecorded cash receipts). Doing reconciliations on a timely basis enables timely follow up of differences and corrections, increasing the accuracy of financial records. Without accurate and timely bank reconciliations, the Ministry increases the risk of using inaccurate financial information to make decisions and monitor NMTA's operations.

- 1. We recommend that the Ministry of Government Relations prepare timely and accurate bank reconciliations for the Northern Municipal Trust Account, as its policies require.**

## 4.2 Preparation of Accurate Quarterly Financial Reports Needed

We recommended that the Ministry of Government Relations prepare accurate quarterly financial reports for the Northern Municipal Trust Account, as its policies require. (2015 Report – Volume 1; Public Accounts Committee agreement September 15, 2016)

**Status** – Partially Implemented

During 2015, the Ministry did not record lease revenue accurately. It did not recognize that the quarterly reports from the Ministry of Environment<sup>4</sup> on lease revenues earned and collected on NMTA's behalf were incomplete. As a result, it missed recording almost one-third of lease revenues earned (i.e., did not record \$1.3 million of \$4.5 million in lease revenue).

Also, in turn, NMTA's 2015 quarterly financial reports did not include reasonable estimates for lease revenue.

Not accurately estimating lease revenue throughout the year increases the risk of having inaccurate financial information to make decisions and not having sufficient information to monitor NMTA's lease activities.

<sup>4</sup>The Ministry of Environment administers and collects lease revenue on the Ministry of Government Relations' behalf for NMTA.



### 4.3 Closer Supervision Needed

We recommended 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. (2015 Report – Volume 1; Public Accounts Committee agreement September 15, 2016)

**Status** – Not Implemented

During 2015, the Ministry did not adequately supervise staff responsible for recording NMTA financial information. We continued to identify instances where staff did not follow policies properly. For instance, contrary to Ministry policy:

- › The last complete verification of the existence and condition of NMTA's capital assets was 2012 instead of at least every two years<sup>5</sup>
- › We found staff, in a number of instances, recorded transactions to an incorrect general ledger account code (e.g., Other revenue instead of Other transfers revenue). This resulted in \$108 thousand in errors.<sup>6</sup>
- › Management did not leave evidence of independent review and approval on the journal entries for 38% of the items we tested<sup>7</sup>
- › Staff did not prepare or review monthly bank reconciliations by the end of the following month (see **Section 4.1**)

In addition, management did not carry out a detailed review of the draft financial statements presented for audit. These draft financial statements contained numerous and significant errors (see **Section 4.2**). Staff corrected the financial statements prior to their finalization and approval. As noted above (see **Section 3.0**), NMTA's annual financial statements were reliable.

Not having adequate supervision increases the risk of not detecting and correcting, within a reasonable time, errors in NMTA's financial records and non-compliance with key policies and processes.

<sup>5</sup> 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.

<sup>6</sup> 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).

<sup>7</sup> NMTA's policies require staff and management to leave evidence of preparation and independent review on all journal entries.