

Chapter 5

Government Relations – Northern Municipal Trust Account

1.0 MAIN POINTS

Other than the following, the Ministry of Government Relations had effective rules and procedures to safeguard the Northern Municipal Trust Account's public resources, for the year ending December 31, 2016. The Ministry did not:

- Adequately supervise staff responsible for recording the Account's financial information
- Prepare timely and accurate bank reconciliations
- Prepare financial reports for each quarter

Without adequate supervision and financial reporting, the Ministry risks using inaccurate or incomplete financial information to make decisions and monitor the Account's operations.

Also, the Ministry did not provide the Account's 2015 or 2016 annual reports to the Legislative Assembly within timelines set in *The Executive Government Administration Act*. This was due, in part, to the issues identified above, as it did not prepare accurate or timely financial statements for audit.

The Account's 2016 financial statements are reliable.

2.0 INTRODUCTION

Under *The Northern Municipalities Act, 2010*, the Northern Municipal Trust Account 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 District¹ (e.g., provide water)

The Act makes the Ministry responsible for administering the Account. In addition, it makes a Cabinet-appointed Board responsible for giving the Minister of Government Relations advice on the allocations of northern operating and capital grants, and advice on changes to laws concerning the Account.

¹The 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.



The Ministry has assigned about 11 full-time equivalent staff, located primarily in La Ronge, to administer the Account.

Figure 1 – Financial Overview

	Actual 2016	Actual 2015
	(in millions)	
Revenues – from Ministry of Government Relations	\$ 22.0	\$ 20.3
Revenues – other sources	12.7	13.1
Total Revenues	\$ 34.7	\$ 33.4
Grants expenses	23.9	20.9
Other expenses	4.6	5.1
Total Expense	\$ 28.5	\$ 26.0
Cash	12.9	28.8
Temporary investments	26.6	1.6
Accounts receivable	6.5	8.7
Capital assets	4.9	4.7
Other assets	0.6	0.5
Total Assets	\$ 51.5	\$ 44.3

Source: Adapted from Northern Municipal Trust Account Financial Statements for the year ended December 31, 2016.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended December 31, 2016:

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

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

- **The Account had reliable financial statements**

We used standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (including CSAE 3001) to conduct our audit. We used the control framework published by CPA Canada to make our judgments about the effectiveness of Ministry’s controls over the Account. 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 effort focused on certain revenues (e.g., taxation, utility, leases, fuel sales). This included assessing the Ministry's monitoring of lease and land sales revenues that the Ministry of Environment collects on the Account's behalf; and testing the accuracy of tax calculations and fuel sales. In addition, we assessed the reasonability of management's estimates of lease receivables, landfill decommissioning costs, and contaminated sites liability. We observed fuel inventory on hand at year-end, and assessed whether the Ministry properly recorded the Account's fuel inventory.

During 2016, the Ministry upgraded the Account's accounting software. As a result, we assessed the Ministry's processes to do the upgrade. This included checking the completeness and accuracy of financial information after the upgrade.

4.0 KEY FINDINGS AND RECOMMENDATIONS

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

4.1 Closer Supervision of Financial Staff 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 2016, the Ministry did not adequately supervise staff responsible for various Account financial activities.

During the 2016 audit, we identified instances where staff did not follow policies properly. For instance, contrary to Ministry policies, we found:

- The last complete verification of the existence and condition of the Account's capital assets was in 2012 instead of at least every two years.²
- Staff, in a number of instances, recorded transactions to the wrong general ledger account (e.g., to other revenue instead of other transfers revenue).³ Management did not detect this error in its review of financial results. As a result, the Account's 2016 financial statements presented for audit had \$338,000 of errors (2015: \$108,000). The Ministry corrected the Account's final financial statements for most of these errors.

² 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.

³ Policies require staff to verify that invoices are coded to proper accounts prior to invoices being entered into the Account's accounting records (the general ledger).



- For almost one-half of the accounting entries we tested, management did not leave evidence of independent review and approval on the journal entries.⁴
- Staff did not prepare or review monthly bank reconciliations by the end of the following month (see **Section 4.2**).
- For the Account's leases receivable, management incorrectly estimated the amounts it expects the Ministry will be unable to collect.⁵
- Management did not prepare payment reports for approval by Local Advisory Committees.⁶

Without adequate supervision, the Ministry may not detect and correct, within a reasonable time, errors in the Account's financial records or identify instances where staff are not following key policies and processes.

4.2 Proper and Timely Reconciliation of Bank Accounts Needed

We recommended that the Ministry of Government Relations prepare timely and accurate bank reconciliations for the Northern Municipal Trust Account, as its policies require. (2016 Report – Volume 2; Public Accounts Committee agreement March 21, 2017)

Status – Not Implemented

During 2016, the Ministry did not reconcile the Account's bank accounts properly and prepared all bank reconciliations later than its policies expect. At December 31, 2016, the Account held cash of almost \$13 million.

During the 2016 audit, we found, contrary to Ministry policy:

- Staff did not resolve differences between the Account's bank account balances and accounting records. The unreconciled differences ranged from \$1,342 to \$4,798.
- Staff did not prepare bank reconciliations before the end of the following month⁷ and did not prepare a reconciliation for November 2016.
- Management did not document its review and approval of bank reconciliations.⁸ As a result, the Ministry could not show whether it reviewed reconciliations on a timely basis.

Proper bank account reconciliations check the accuracy and reliability of the Account's accounting records (e.g., detect unauthorized payments, unrecorded cash receipts or loss of public money). Doing reconciliations on a timely basis enables timely follow up of differences and corrections, increasing the accuracy of financial records. Without

⁴ Policies require management to leave evidence of preparation and independent review on all journal entries.

⁵ Policies require staff to include leases receivable outstanding for more than 360 days in its estimate of uncollectible accounts—management included leases receivable outstanding for more than 180 days.

⁶ Policies require staff to prepare and take payment lists to Local Advisory Committee meetings for expenditure approval. Each northern settlement has a Local Advisory Committee of 3 or 5 members that advise the Minister about northern affairs.

⁷ Policies require staff to reconcile the recorded bank balance to the bank's records by the end of the following month.

⁸ Policies require management to independently review and approve the reconciliations.

accurate and timely bank reconciliations, the Ministry increases the risk of using inaccurate financial records to make decisions and the risk of loss of public money without timely detection.

4.3 Preparation of Financial Reports for All Quarters 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 2016, contrary to its policies, management did not prepare quarterly financial reports for the first or second quarter. Staff prepared, and management approved, the Account's third-quarter report in accordance with policy.

The Account's policies and procedures require the Account to prepare quarterly reports within 42 days of quarter-end. In addition, they require senior management to approve the reports as evidence of their review.

Not preparing quarterly reports throughout the year increases the risk of senior management not receiving necessary financial information to make decisions or to monitor the Account's financial activities.

4.4 Timely Tabling of Annual Reports Needed

The Ministry did not provide the Account's December 31, 2015, or December 31, 2016, annual reports to the Legislative Assembly within the timeframe required by *The Executive Government Administration Act* (Act). Section 13 of the Act requires the Ministry to provide the Account's annual report within 120 days after year-end.

The Ministry provided the Account's *2015 Annual Report* to the Assembly on October 31, 2016. As of July 31, 2017, it had not yet tabled the Account's 2016 Annual Report. The Act required the Ministry to provide the Account's annual reports by April 29, 2016 and April 30, 2017, respectively.

The Ministry was unable to provide the Assembly with timely annual reports due, in part, to the issues identified in **Sections 4.1** and **4.2**, as it did not prepare accurate or timely financial statements for audit.

Not tabling the Account's annual report within the timelines set in legislation increases the risk that legislators do not have sufficient information to monitor the Account's operations.

- We recommend that the Ministry of Government Relations provide the Northern Municipal Trust Account's annual report to the Legislative Assembly in accordance with timelines set in *The Executive Government Administration Act*.***

