

Chapter 11

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. With respect to the Trust Account, the Ministry did not adequately segregate duties of employees responsible for key accounting functions, supervise staff responsible for recording financial information, or prepare timely and accurate bank reconciliations.

Without adequate segregation of duties or supervision of staff, the Ministry faces a higher risk of fraud occurring and of undetected errors in the Trust Account's financial information. In addition, the Ministry risks using inaccurate or incomplete financial information to make decisions and monitor the Trust Account's operations.

The Ministry gave the Legislative Assembly the Trust Account's 2015, 2016, and 2017 annual reports later than timeframes set in *The Executive Government Administration Act*. This was due, in part, to the accounting issues identified above. Not tabling the Trust Account's annual report within the timeframes set in legislation increases the risk that legislators do not have sufficient information to monitor the Trust Account's operations.

The Trust Account's 2017 financial statements are reliable.

2.0 INTRODUCTION

2.1 Background

The Ministry of Government Relations is responsible for administering the Northern Municipal Trust Account. Under *The Northern Municipalities Act, 2010*, the Trust Account has two main purposes:

- To assist northern municipalities in providing quality services to their residents through operating and capital grants (e.g., for funding water and sewer systems to provide residents with access to a safe potable water supply, and municipal facilities and equipment)
- To administer and finance the municipal functions and operations (e.g., provide water) of the Northern Saskatchewan Administration District¹

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

The Ministry, through the Trust Account, administers all revenues relating to the Northern Saskatchewan Administration District and all moneys appropriated by the Legislature for the purposes of northern revenue sharing and other grant programs. The Trust Account

¹ 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.



also acts as a municipal operating fund for the unincorporated area in the district (i.e., northern settlements and resort subdivisions).

In addition, the Ministry, through the Trust Account, levies and collects taxes for northern hamlets and northern school divisions. It remits these taxes, upon receipt, to the respective entities.

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

2.2 Financial Overview

Figure 1 provides financial highlights of the Trust Account.

Figure 1 – Financial Highlights

	Actual 2017	Actual 2016
	(in millions)	
Grants from Ministry of Government Relations (General Revenue Fund)	\$ 25.1	\$ 22.0
Taxation Revenue	6.2	5.3
Lease Fees Revenue	4.1	4.2
Revenues – other sources	<u>1.7</u>	<u>3.2</u>
Total Revenues	\$ 37.1	\$ 34.7
Grants (Northern Revenue Sharing, Water and Sewage, et al)	26.7	23.9
Municipal Services	3.9	3.8
Other expenses	<u>0.8</u>	<u>0.8</u>
Total Expenses	\$ 31.4	\$ 28.5
Annual Surplus	\$ 5.7	\$ 6.2
Total Financial Assets (e.g., Cash, Investments, Accounts Receivable)	\$ 52.2	\$ 46.6
Capital Assets (e.g., Water and Sewage, Buildings, Machinery)	5.5	4.9
Total Liabilities	\$ 10.5	\$ 9.0

Source: Adapted from Northern Municipal Trust Account audited financial statements for the year ended December 31, 2017.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended December 31, 2017:

- **The Ministry of Government Relations had effective rules and procedures to safeguard the Trust Account’s public resources except for the matters described in this chapter**

- **The Ministry of Government Relations complied with the following authorities governing the Trust 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

- **The Trust 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 Trust 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.

We focused our audit effort on certain revenues (e.g., taxation, utility, leases, and fuel sales). We assessed the Ministry's monitoring of lease and land sales revenues that the Ministry of Environment collects on the Trust Account's behalf. We tested the accuracy of tax calculations and fuel sales. In addition, we assessed the reasonability of management's estimates of lease receivables, accrued landfill-decommissioning costs, and contaminated sites liability. We observed fuel inventory on hand at year-end, and assessed whether the Ministry properly recorded the Trust Account's fuel inventory.

4.0 KEY FINDINGS AND RECOMMENDATIONS

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

4.1 Segregation of Incompatible Duties Needed

During 2017, the Ministry did not appropriately restrict user access within its accounting IT system. In addition, it did not adequately segregate duties of staff responsible for receiving money, recording cash receipts, and preparing bank deposits.

While the Ministry restricted access to its accounting system to certain staff, it did not appropriately restrict what users could do within the system. As a result, employees responsible for receiving and depositing money and making payments could also adjust the accounting records. Management told us it plans to better restrict user access in its accounting system in 2018.

In addition, staff are carrying out functions that are not compatible. During the audit, we found six instances where one employee opened the mail, prepared the bank deposit, and recorded the cash received in the accounting records. Management indicated this occurred at various points during 2017 due to staff shortages.



Not appropriately segregating staff duties that are not compatible increases the risk of undetected fraud and error including making inappropriate adjustments to accounting records resulting in errors in the Trust Account's financial information.

1. **We recommend that the Ministry of Government Relations adequately segregate duties of employees responsible for the key accounting functions of the Northern Municipal Trust Account.**

4.2 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 2017, the Ministry did not adequately supervise staff responsible for various Trust Account financial activities.

Financial information presented for audit was not reviewed in sufficient detail to identify issues. A detailed review is necessary given the Ministry experiences regular turnover of accounting and financial staff assigned to the Trust Account. During the 2017 audit, we identified instances where staff did not follow policies properly, and the draft financial statements presented for audit contained numerous errors. For instance, contrary to Ministry policies, we found:

- Staff did not adequately follow up on the status of the Trust Account's Goods and Services Tax (GST) returns submitted to the Canada Revenue Agency; as of July 2018:
 - The Ministry had not received refunds from Canada Revenue Agency for six of eight of the Trust Account's quarterly 2016 and 2017 GST returns. Staff did not follow up with Canada Revenue Agency on the status of these returns to determine whether the Trust Account's GST receivable related to those returns of \$784,000 at December 31, 2017 was collectible.
 - For the Trust Account's GST returns from 2010 to 2015, staff did not follow up with Canada Revenue Agency to determine the reasons for differences totalling \$126,000 between amounts included on the GST returns submitted, and what the Canada Revenue Agency paid the Trust Account. As a result, staff could not show whether GST receivables of \$126,000 were collectible.
 - For GST returns from 2010 to 2017, staff did not adjust the Trust Account's financial records to reduce its GST receivable based on the Canada Revenue Agency's GST assessments. As a result, the Ministry overstated the Trust Account's GST receivable by \$76,000 at December 31, 2017.

- For 13% (prior year: 46%) of the accounting entries we tested, management did not leave evidence of independent review and approval on the journal entries²
- Staff did not prepare or review monthly bank reconciliations by the end of the following month (see **Section 4.3**).

In addition, we also found the following. Staff did not calculate unearned revenue for leases correctly; recorded a wrong amount to accounts receivable related to water and sewer grants; recorded write off of accounts receivable to the wrong general ledger account; and recorded one transaction related to reduction of a northern revenue sharing grant twice.

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

4.3 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 – Partially Implemented

During 2017, the Ministry did not always reconcile the Trust Account's bank accounts properly and prepared bank reconciliations later than its policies expect.³ At December 31, 2017, the Trust Account held cash of almost \$9.9 million (2016: \$12.9 million).

Contrary to Ministry policy, staff did not always prepare bank reconciliations before the end of the following month—staff prepared 8 of 12 reconciliations late—from 2 to 84 days after the end of the following month (2016: from 9 to 162 days late).

In 2017, management more consistently documented its review and approval of bank reconciliations, and did a better job of resolving differences between the Trust Account's bank account balances and accounting records than in 2016. Only one month during 2017 had a small unresolved difference.

Bank account reconciliations check the accuracy and reliability of the Trust Account'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 the Trust Account's operations.

² The Trust Account's policies require management to leave evidence of preparation and independent review on all journal entries.

³ The Trust Account's policies require staff to reconcile the recorded bank balance to the bank's records by the end of the following month.



4.4 More Timely Tabling of Annual Reports Needed

We recommended 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. (2017 Report – Volume 2; Public Accounts Committee agreement October 10, 2018)

Status – Not Implemented

The Ministry did not give the Legislative Assembly the Trust Account's 2015, 2016, or 2017 annual reports within the timeframe required by *The Executive Government Administration Act*.⁴

The Ministry provided the Assembly with the Trust Account's 2015 and 2016 annual reports on October 31, 2016, and September 29, 2017, respectively, and as of August 2018, had not tabled the Trust Account's 2017 annual report. The Act required the Minister of Government Relations to table the Trust Account's annual reports by April 29, 2016, April 30, 2017, and April 30, 2018, respectively.

The Ministry was unable to provide the Assembly with timely annual reports due, in part, to the issues previously identified in this chapter.

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

4.5 Accurate Quarterly Financial Reports Prepared

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 – Implemented

During 2017, staff prepared, and senior management approved, quarterly financial reports as required by established policies. The quarterly reports we examined did not contain significant errors.

⁴ Section 13 of *The Executive Government Administration Act* requires the Minister of Government Relations to table the Trust Account's annual report within 120 days after year-end (of December 31).