

Chapter 7 Government Relations

1.0 MAIN POINTS

During 2018–19, the Ministry of Government Relations had effective rules and procedures to safeguard public resources other than in the following area.

The Ministry did not sufficiently review and update certain key accounting estimates. As a result, it:

- Missed recording treaty land entitlement obligations of \$22.8 million in fiscal years prior to 2018–19; it appropriately corrected this error in 2018–19
- Overstated its education property tax revenue of \$670.9 million by \$6.5 million for 2018–19

Not periodically reviewing and updating key accounting estimates for changes in circumstances increases the risk that the Ministry's financial records will be incorrect.

The Ministry complied with financial-related authorities.

2.0 INTRODUCTION

The Ministry of Government Relations is responsible for municipal relations, public safety, and for First Nations, Métis and northern affairs, as well as promoting community safety.¹ Its responsibilities include co-ordinating, developing, promoting, and implementing policies and programs:

- Related to cities, municipalities (urban, rural, northern) and matters of an inter-municipal nature
- With respect to matters affecting First Nations and Métis people
- To foster and advance development in northern Saskatchewan
- For emergency management, disaster assistance, fire commissioner services, and building accessibility and other safety standards
- For public safety (e.g., safety standards for boilers, pressure vessels, gas equipment and installations)²

Its policies and programs relate to community planning, development, and diversification of cities and municipalities; joint ventures related to municipalities; and administrative and

¹ www.saskatchewan.ca/government/government-structure/ministries/government-relations (16 September 2019).

² *The Ministry of Government Relations Regulations, 2019.*



technical advice provided to administrators/councils to support the effective and efficient operation of municipal governments, community facilities, and local government elections.

2.1 Financial Overview

For the year ended March 31, 2019, the Ministry generated revenues of \$837.8 million and expenses of \$623.3 million. **Figure 1** lists the Ministry's expenses by major programs. For further details, see the Ministry's 2018–19 Annual Report available on its website.³

Figure 1—Expenses by Major Program

| | Estimates 2018–19 ^A | Actual 2018–19 |
|---|-----------------------------------|-------------------|
| | (in millions) | |
| Central Management and Services | \$ 9.3 | \$ 6.9 |
| First Nations, Métis and Northern Affairs | 78.2 | 163.9 |
| Municipal Relations | 481.8 | 429.8 |
| Saskatchewan Municipal Board | 1.8 | 1.7 |
| Public Safety | 10.1 | 19.6 |
| Total Appropriation | <u>581.2</u> | <u>621.9</u> |
| Capital Asset Acquisition | (2.3) | (1.6) |
| Capital Asset Amortization | <u>2.9</u> | <u>2.9</u> |
| Total Expense | <u>\$ 581.8</u> | <u>\$ 623.3</u> |

Source: *Ministry of Government Relations 2018–19 Annual Report*

^A The Ministry obtained additional funding through supplementary estimates of \$95.1 million.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2019, we found, in all material respects:

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

The Appropriation Act
The Assessment Management Agency Act
The Assessment Management Agency Regulations
The Cities Act
The Education Property Tax Act
The Education Property Tax Regulations
The Executive Government Administration Act
The Financial Administration Act, 1993
The Government Relations Administration Act
The Indian and Native Affairs Act

The Municipal Board Act
The Municipal Grants Act
The Municipal Grants Regulations
The Municipalities Act
The Northern Municipalities Act, 2010
The Provincial Disaster Assistance Program Regulations, 2011
The Public Service Act, 1999
Public Service Regulations, 1999
The Purchasing Act, 2004
The Revenue and Financial Services Act

³ *Ministry of Government Relations 2018–19 Annual Report*. www.pubsaskdev.blob.core.windows.net/pubsask-prod/112657/2018-19GovernmentRelationsAnnualReport.pdf (16 September 2019).

The Legislative Assembly Act, 2007
The Members Conflict of Interest Act
Ministerial Assistant Employment
Regulations, 1993
The Ministry of Government Relations
Regulations, 2019
The Métis Act
The Members of Executive Council
Expense Regulations, 1988

The Saskatchewan Gaming Corporation Act
 (Part III.01 and III.1)
The Saskatchewan Natural Resources
Transfer Agreement (Treaty Land
Entitlement) Act
2002 Gaming Framework Agreement
 Orders in Council pursuant to the above
 legislation

We used standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (including CSAE 3001 and 3531) to conduct our audit. We used the control framework included in COSO's *Internal Control—Integrated Framework* to make our judgments about the effectiveness of the Ministry's controls.

We focused our audit on areas where the Ministry has significant financial activities. The audit included testing the Ministry's:

- Controls for awarding grants, approving grant payments, and monitoring municipalities' compliance with federal and provincial funding agreements as it receives and distributes significant funding for various municipal programs.
- Controls for managing disaster claims and recovering amounts from the Federal Government, including processes for making and recording significant accounting estimates. The Ministry provides significant financial assistance to individuals and organizations for provincial disaster claims and expects to receive reimbursement from the Federal Government for a portion of the amount it pays.
- Controls for monitoring the compliance with the *2002 Gaming Framework Agreement* and paying grants under this Agreement. The Ministry provides under this Agreement significant funding annually to the First Nations Trust and six Community Development Corporations based on profits Saskatchewan casinos earn.⁴
- Processes to estimate amounts owed for Treaty Land Entitlement settlements and education property tax revenue.

4.0 KEY FINDINGS AND RECOMMENDATION

4.1 Improved Processes Needed to Make Key Accounting Estimates

In 2018–19, the Ministry had two significant errors in its financial records because of inadequate processes to prepare key accounting estimates.

Treaty Land Entitlement Agreement Obligations

The Ministry did not follow Canadian public sector accounting standards when recording amounts due under Treaty Land Entitlement agreements. It missed recording a \$22.8 million liability for Treaty Land Entitlement agreement obligations for claims verified

⁴ In accordance with the *2002 Gaming Framework Agreement* and *The Saskatchewan Gaming Corporation Act* (for the First Nations Trust).



by the Federal Government in fiscal years prior to 2018–19. The Ministry corrected this error in 2018–19.

The Federal Government uses Treaty Land Entitlement agreements to fulfill its legal obligation to provide the promised amount of reserve land agreed to in its treaties with certain First Nations in Saskatchewan. In 1930, Canada passed a series of Natural Resources Transfer Acts, which transferred federally controlled lands to the prairie provinces, including Saskatchewan.

These Acts require Saskatchewan to give the Government of Canada unoccupied Crown land to assist in fulfilling its outstanding obligations to First Nations. The Federal Government, the Provincial Government and First Nations agreed on a compensation formula to allow First Nations to purchase other lands if the Provincial Government has no or insufficient unoccupied Crown land available. The Federal Government and the Provincial Government agreed to share these costs on a 70/30 basis respectively.⁵

Prior to 2018–19, contrary to Canadian public sector accounting standards, the Ministry recorded Saskatchewan's obligation under these agreements when the three parties signed a final agreement. Canadian public sector accounting standards require recording obligations when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved.

In 2018–19, the Ministry appropriately determined it should record an obligation when the Federal Government verifies the claims, and the Ministry has a reasonable basis to estimate its obligation. As a result, the Ministry recorded a liability of \$100.2 million at March 31, 2019. However, following Canadian public sector accounting standards, it should have recorded \$22.8 million of this amount prior to 2018–19. This is because the Federal Government verified some of these claims before 2018–19 giving the Ministry a reasonable basis to estimate the \$22.8 million.

Education Property Tax Revenue

Other than for the following matter, the Ministry had processes to reasonably estimate education property tax revenue (e.g., reconciliations and other analysis). Those processes did not consistently identify when separate school divisions decided to administer and collect education property taxes levied for their division.

Effective January 1, 2018, the Ministry became responsible for administering education property tax and recording the associated revenue, except for the City of Lloydminster and certain separate school divisions.⁶ Separate school divisions can pass bylaws to administer their own education property taxes.⁷

In January 2019, four separate school divisions began collecting education property tax levied for their division, and recording these amounts in their financial records.

⁵ Set out in the 1992 Framework Agreement between the Government of Canada, the Government of Saskatchewan and certain First Nation Bands.

⁶ *The Education Property Tax Act* (s. 3) assigns responsibility for the “establishment, operation, collection, administration or management of school tax” to the Minister of Government Relations. Under *The Financial Administration Act, 1993*, revenues collected by the Ministry are deposited into the General Revenue Fund.

⁷ *The Education Property Tax Act*, s.7(1).

However, the Ministry did not adjust its estimation process to exclude estimated revenue for one of these separate school divisions.

As a result, in 2018–19, the Ministry incorrectly recorded \$6.5 million in education property tax revenue in its financial records. The Ministry recorded \$670.9 million in education property tax revenue in 2018–19.

Not periodically reviewing and updating key accounting estimates for changes in circumstances increases the risk that the Ministry's financial records will be incorrect. As a result, the Government and the public may use incorrect financial information to make decisions.

- 1. We recommend the Ministry of Government Relations regularly review and update the processes it uses to make key accounting estimates (e.g., for education property tax revenues, treaty land entitlement obligations).**

