

Chapter 1

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. The Ministry did not:

- Adequately supervise staff responsible for recording Trust Account financial information including making sure it had complete and accurate information to prepare financial statements. The 2018 financial statements presented for audit contained significant errors (undisclosed contractual rights related to leases, and improperly recorded water and sewer expenses). Management corrected these errors; the Trust Account's 2018 financial statements are reliable.
- Adequately segregate duties of employees responsible for key accounting functions of the Trust Account (e.g., receiving money, preparing bank deposits, making payments)
- Prepare bank reconciliations of the Trust Account before the end of the following month—as its policy expects

Effective financial controls help ensure management has quality information to make decisions.

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 is to provide for the administration of funds and property held for the following two main purposes:

- To administer and finance the municipal functions and operations (e.g., provide water) of the Northern Saskatchewan Administration District.¹

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

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.



- 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).

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.

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

The Ministry assigned five staff located in La Ronge to administer the Trust Account. An additional eight staff, located primarily in La Ronge, provide assistance in addition to their regular municipal advisory, community planning, policy analysis, and management responsibilities.

2.2 Financial Overview

As shown in **Figure 1** in 2018, the Trust Account had an annual deficit of \$4.2 million (2017: surplus of \$6.0 million). It managed capital assets (e.g., water treatment plants, sewer systems and buildings) of \$5.3 million (2017: \$5.5 million).

Figure 1—Financial Highlights

	Actual 2018	Actual 2017
	(in millions)	
Grants from Ministry of Government Relations (General Revenue Fund)	\$ 22.9	\$ 25.1
Taxation Revenue	6.2	6.2
Lease Fees Revenue	4.1	3.7
Revenue – Other Sources	<u>2.0</u>	<u>1.7</u>
Total Revenue	\$ 35.2	\$ 36.7
Grants (Northern Revenue Sharing, water and sewage, et al)	33.9	26.0
Municipal Services	4.4	3.9
Other Expense	<u>1.1</u>	<u>0.8</u>
Total Expense	\$ 39.4	\$ 30.7
Annual (Deficit) Surplus	\$ (4.2)	\$ 6.0
Total Financial Assets (e.g., Cash, Investments, Accounts Receivable)	\$ 50.2	\$ 52.9
Capital Assets (e.g., water and sewage, buildings, machinery)	\$ 5.3	\$ 5.5
Total Liabilities	\$ 12.0	\$ 10.8

Source: Adapted from the Northern Municipal Trust Account audited financial statements for the year ended December 31, 2018.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended December 31, 2018, we found, in all material respects:

- **The Ministry of Government Relations had effective rules and procedures to safeguard the Northern Municipal 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 Northern Municipal 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 Northern Municipal Trust Account had reliable financial statements**

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 over the Northern Municipal 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 on key revenues (e.g., taxation, utility, leases, and fuel sales). The audit included assessing the Ministry's monitoring of the Trust Account's lease and land sales revenues, and testing the accuracy of its tax calculations and fuel sales.² In addition, the audit assessed the reasonability of management's estimates of lease receivables, accrued landfill-decommissioning costs, and contaminated sites liability. It assessed whether the Ministry properly recorded the Trust Account's fuel inventory on hand at year-end.

4.0 KEY FINDINGS AND RECOMMENDATIONS

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

² The Ministry of Environment collects lease and land sales revenues on the Trust Account's behalf.



4.1 Closer Supervision of Financial Staff Needed

We recommended 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, p. 18, Recommendation 2; Public Accounts Committee agreement September 15, 2016)

Status—Partially Implemented

During 2018, although the Ministry improved some of its financial activities, it did not review financial information in sufficient detail. A detailed review is necessary because Ministry staff preparing the financial statements do not possess robust accounting knowledge.

During the 2018 audit, we found the Ministry improved the following financial activities where we had identified concerns in prior audits. For all of the accounting entries we tested, management appropriately left evidence of independent review and approval. Staff followed up on the status of the Trust Account's GST returns submitted to the Canada Revenue Agency, and appropriately adjusted its accounts for amounts determined not collectible and for payments received.

However, during the 2018 audit, we identified instances where staff improperly followed policies, and the draft financial statements presented for audit contained numerous errors. For instance, staff:

- Did not prepare or review monthly bank reconciliations by the end of the following month as required by Ministry policy (see **Section 4.3**).
- Maintained incomplete Trust Account capital asset listings (i.e., did not always contain an appropriate description of assets) making tracking the location of capital assets difficult.
- Improperly recorded, from 2014 to 2018, water and sewer transfer expenses, and related amounts recoverable for two communities in the draft financial statements presented for audit. The Ministry overstated the Trust Account's expenses for 2018 by about \$369 thousand, understating amounts due by about \$1.08 million, and understating the opening accumulated surplus by about \$711 thousand. Management later corrected the statements.
- Improperly accounted for a change in the Trust Account capital asset policy resulting in overstating capital assets recorded in the draft financial statements presented for audit by about \$76 thousand, and overstating depreciation expense by about \$13 thousand.
- Failed to disclose contractual rights for leases of approximately \$66 million in the draft financial statements presented for audit; Canadian public sector accounting standards require such disclosure. Management later corrected the statements.

- Missed identifying errors in supporting information received from the Ministry of Environment about its leases when it later disclosed contractual rights in its revised financial statements presented for audit. This resulted in including about \$67 million too much in contractual rights. Management later corrected the statements.

Without adequate supervision, including detailed review of financial information, used to prepare financial statements, the Ministry may not detect and correct, within a reasonable timeframe, errors in the Trust Account's financial records or identify instances where staff are not following key policies and processes.

4.2 Segregation of Incompatible Duties Needed

We recommended the Ministry of Government Relations adequately segregate duties of employees responsible for key accounting functions of the Northern Municipal Trust Account (2018 Report – Volume 2, p.68, Recommendation 1; Public Accounts Committee agreement February 26, 2020)

Status—Not Implemented

During 2018, the Ministry did not properly segregate incompatible duties of staff responsible for receiving money, preparing bank deposits, making payments, and recording financial transactions in the Trust Account's accounting system.

The Ministry has not properly restricted what users can do within the Trust Account's IT accounting system. It inappropriately allows employees whose responsibilities include receiving and depositing money, and making payments to adjust accounting records. Management told us they plan to install a new security module for the Trust Account's accounting system in early 2020. It expects to use this module to better separate responsibilities of users given access to the Trust Account's IT accounting system.

In addition, the Ministry assigned staff responsibility for incompatible duties. During the audit, we found three instances (2017: six instances) where one employee opened the mail, prepared the bank deposit, and recorded the cash received in the Trust Account's accounting records. Management acknowledged this occurred during 2018 because of a small number of financial staff.

Not properly separating responsibilities assigned to staff increases the risk of undetected fraud and error, including inappropriate adjustments to accounting records. This increases the risk of errors in the Trust Account's financial information.

4.3 Timely Reconciliation of Bank Accounts Needed

We recommended 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, p.69, Recommendation 1; Public Accounts Committee agreement March 21, 2017)

Status—Partially Implemented



During 2018, the Ministry prepared monthly bank reconciliations later than its policies expect.³ At December 31, 2018, the Trust Account held cash of approximately \$9.3 million (2017: \$9.9 million) in one bank account.

Contrary to Ministry policy, staff did not always prepare bank reconciliations before the end of the following month. We found staff prepared five of 12 reconciliations from four to 23 days after the end of the following month (2017: from two to 84 days late).

We noted that in 2018 management more consistently documented its review and approval of bank reconciliations. In addition, it did a better job of resolving differences between the Trust Account's bank account balances and accounting records than in 2017. Our 2018 audit work did not find any unresolved differences.

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 as close as possible following the period end enables identification and, if necessary, expedited follow up of differences and corrections. This increases the accuracy of financial records used to make decisions and monitor the Trust Account's operations.

4.4 More Timely Tabling of Annual Reports Needed

We recommended 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, p.45, Recommendation 1; Public Accounts Committee agreement October 10, 2018)

Status—Not Implemented

The Ministry did not give the Legislative Assembly the Trust Account's 2015, 2016, 2017 and 2018 annual reports within the timeframes required by *The Executive Government Administration Act*. The Ministry's inability to give the Assembly timely annual reports for the Trust Account resulted, in part, from the matters identified in this chapter.

The Assembly received the Trust Account's 2015, 2016, and 2017 annual reports on October 31, 2016, September 29, 2017, and February 28, 2019 respectively. At February 2020, the Assembly had not yet received the Trust Account's 2018 annual report.

The Act requires the Minister of Government Relations to table the Trust Account's annual reports by the end of April each year.⁴

Not tabling the Trust Account's annual report within the timelines set in legislation results in legislators not having sufficient information to monitor the Trust Account's operations.

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 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).