

## 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 and it complied with its financial-related legislative authorities. The Ministry:

- Did not adequately supervise staff responsible for recording Trust Account financial information including making sure it has complete and accurate information to prepare financial statements. For example, we found the 2019 financial statements presented for audit did not properly record \$3.5 million in lease revenue and improperly disclosed approximately \$16.5 million in contractual rights.
- Did not adequately segregate duties of employees responsible for key accounting functions of the Trust Account to reduce the risk of fraud or undetected errors in the Trust Account's financial information.
- Made grant payments of \$1.8 million from the Trust Account in 2019 for expansion of a landfill without clear legislative authority to do so. Making grant payments without clear legislative authority increases the risk of making payments that are inconsistent with the mandate of the Trust Account.

The Trust Account's 2019 financial statements are reliable.

### 1.0 INTRODUCTION

The Ministry of Government Relations is responsible for administering the Northern Municipal Trust Account.<sup>1,2</sup> 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.<sup>3</sup>

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 area in the district (i.e., northern settlements and resort subdivisions).

<sup>1</sup> *The Northern Municipalities Act, 2010* establishes the Northern Municipal Trust Account and its purposes.

<sup>2</sup> *The Northern Municipalities Act, 2010* 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.

<sup>3</sup> The Northern Saskatchewan Administration District is a geographical area defined under *The Northern Municipalities Regulations* s. 74 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 Ministry, through the Trust Account, levies and collects taxes for northern hamlets. It remits these taxes, upon receipt, to the respective entities.

At December 2019, the Ministry had 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.

## 1.1 Financial Overview

As shown in **Figure 1**, in 2019, the Trust Account had an annual surplus of \$5.6 million (2018: deficit of \$4.2 million). It managed capital assets (e.g., water treatment plants, sewer systems and buildings) of \$5.1 million (2018: \$5.3 million).

**Figure 1—Financial Highlights**

	Actual 2018	Actual 2019
	(in millions)	
Grants from the Ministry of Government Relations (General Revenue Fund)	\$ 22.9	\$ 27.8
Taxation Revenue	6.2	5.1
Lease Fees Revenue	4.1	6.2
Revenue – Other Sources	2.0	2.3
<b>Total Revenue</b>	<b>\$ 35.2</b>	<b>\$ 41.4</b>
Grants (e.g., Northern Revenue Sharing, water and sewer)	33.9	27.1
Municipal Services	4.4	5.3
Other Expenses	1.1	3.4
<b>Total Expense</b>	<b>\$ 39.4</b>	<b>\$ 35.8</b>
<b>Annual (Deficit) Surplus</b>	<b>\$ (4.2)</b>	<b>\$ 5.6</b>
Total Financial Assets (e.g., Cash, Investments, Accounts Receivable)	\$ 50.2	\$ 54.9
Capital Assets (e.g., water and sewer, buildings, machinery)	\$ 5.3	\$ 5.1
Total Liabilities	\$ 12.0	\$ 10.9

Source: Adapted from the Northern Municipal Trust Account audited financial statements for the year ended December 31, 2019.

## 2.0 AUDIT CONCLUSIONS

**In our opinion, for the year ended December 31, 2019, 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 matters 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 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.

The audit focused on key revenue sources (e.g., taxation, utility, leases, and fuel sales). It included assessing the Ministry’s monitoring of the Trust Account’s lease and land sales revenues, and the accuracy of the Trust Account’s tax calculations and fuel sales.<sup>4</sup> In addition, the audit assessed the reasonability of management’s estimates of lease receivables, accrued landfill-decommissioning costs, and liability of contaminated sites. It also assessed whether the Ministry properly recorded the Trust Account’s fuel inventory on hand at year-end.

## 3.0 KEY FINDINGS AND RECOMMENDATIONS

### 3.1 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 agreement September 15, 2016)

**Status—**Partially Implemented

***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—**Implemented

<sup>4</sup> The Ministry of Environment collects lease and land sales revenue on the Trust Account’s behalf.



The Ministry of Government Relations made some improvements during 2019, but did not review the Trust Account's financial information in sufficient detail.

The Ministry maintains sufficiently robust policies and related procedures to guide staff responsible for administering the Trust Account's day-to-day financial activities, and preparing financial reports (including the year end financial statements). In addition, the Ministry has made staff with suitable accounting expertise in its Corporate Services Division available to provide support to staff responsible for preparing the Trust Account's financial information. Corporate Services Division staff also review the annual draft financial statements and supporting documents prior to them being presented for audit. Providing support and performing detailed review of the financial statements is necessary because Ministry staff preparing the financial statements do not have robust accounting knowledge.

During the 2019 audit, management prepared and approved each of the monthly bank reconciliations timely as its policies required.

However, staff did not always follow key financial policies. In addition, the audit identified several significant errors in the Trust Account's accounting records, and the 2019 draft financial statements presented for audit.

For example, we found, contrary to policies, staff:

- Did not review nor approve five of 35 journal entries we tested. One of the unapproved journal entries we tested did not record \$3.5 million of lease fee revenues correctly.<sup>5</sup> As a result, the draft financial statements presented for audit improperly accounted for these amounts as unearned revenue instead of as earned revenue.

Its policy expects management to review and approve all journal entries. The Trust Account prepares between 15 and 35 journal entries each month.

- Did not actively pursue the collection of outstanding amounts receivable. At December 2019, the Trust Account had receivables of \$12.9 million (including \$3.7 million from the General Revenue Fund) of which \$59,000 were outstanding since 2014. We did not see any evidence of staff actively attempting to collect past-due amounts.

Its policies expect staff to review outstanding receivables at the beginning of each month and send reminder letters to clients with delinquent accounts.

We did not see evidence that staff responsible for the Trust Account's day-to-day administration sought the assistance of the Ministry's Corporate Services Division timely to help determine the appropriate accounting for unbilled leases, and payments for waste management for the Lac La Ronge Regional Waste Management Corporation landfill expansion.

In addition, we found staff did not sufficiently assess the reasonableness of year-end information the Ministry of Environment provided about contractual rights. The Ministry of Government Relations used this information to prepare disclosures about contractual rights

<sup>5</sup> The Ministry of Environment manages leases on the Trust Account's behalf. The Trust Account earns lease revenue of about \$6 million per year.

in its financial statements. We found the draft financial statements incorrectly included \$0.5 million in contractual rights for lease contracts not signed until after year-end.

Furthermore, staff did not review the draft financial statements and supporting information sufficiently. In addition to the lease revenue error (of \$3.5 million noted above), the audit found disclosures in the financial statements presented incorrectly disclosed amounts for various related party transactions (overstated revenue disclosed by \$4.1 million and accounts receivable by \$1.6 million), and contractual rights (overstated by \$16.5 million for contracts not signed until after year-end including \$0.5 million of leases administered by the Ministry of Environment).

The Ministry corrected the errors we identified in the draft financial statements before it finalized them.

Adhering to policies helps reduce the risk of errors in the financial records and/or potential losses due to fraud or mistakes. Carrying out detailed review of Trust Account financial information helps reduce the risk of errors in accounting records, and in financial statements presented for audit. Also, having significant errors in the financial statements increase the risk of delays in the completion of the annual audit.

### 3.2 Authority for Grant Payments for Landfill Expansion Unclear

The Ministry of Government Relations made grant payments from the Trust Account for expansion of a landfill without clear legislative authority to do so.

In January 2019, the Minister of Government Relations approved a program to fund (through the Trust Account) up to \$4.9 million of the construction costs related to an expansion of the Lac La Ronge regional landfill.<sup>6</sup> It refers to this program as the Regional Solid Waste Management program.

The regional landfill currently provides waste management services to three northern municipalities, including the Northern Saskatchewan Administration District, and the Lac La Ronge Indian Band. The planned landfill expansion is expected to benefit the Ministry as it owns part of the regional landfill.

During 2019-20, the Ministry paid \$2.3 million from the Trust Account for this program, and recorded this amount as a waste management operating expense.

The audit determined \$1.8 million of the \$2.3 million is a grant (government transfer) because the amount paid benefits municipalities who are not part of the Northern Saskatchewan Administration District. The Ministry agrees.

As of October 2020, the Ministry was still seeking clarity on the authority to make these grants for the regional landfill expansion. Neither *The Northern Municipalities Act, 2010* nor *The Northern Municipalities Regulations* provide clear authority for the Trust Account to make a grant for landfills.

<sup>6</sup> The total estimated capital cost of the expansion of the regional landfill is \$12.4 million. The Federal Government agreed to fund up to \$7.1 million (for the Lac La Ronge Indian Band), the Provincial Government agreed to fund up to \$4.9 million, and other participating northern municipalities agreed to fund the remaining \$0.4 million.



Making grant payments without clear legislative authority increases the risk of making payments that are inconsistent with the mandate of the Trust Account.

1. **We recommend the Ministry of Government Relations clarify the legislated authority to make grants from the Northern Municipal Trust Account to northern municipalities for landfills not wholly owned by the Ministry.**

### 3.3 Segregation of Incompatible Duties Needed

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***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 2019, 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 could do with the Trust Account's IT accounting system. It inappropriately allowed 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 late 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 ten instances (2018: three instances) where only one person opened the mail and three instances (2018: three instances) where one person prepared the bank deposit and recorded the cash received in the Trust Account's accounting records. Management acknowledged this occurred in 2019 because of a small number of financial staff.

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

### 3.4 More Timely Tabling of Annual Reports Needed

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***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 of Government Relations did not give the Legislative Assembly the annual reports for the Trust Account within the timeframes *The Executive Government Administration Act* requires—that is, by the end of April each year.<sup>7</sup>

The Trust Account's annual reports include audited financial statements.

The Assembly received the Trust Account's 2017 annual report on February 28, 2019. At October 2020, the Assembly had not yet received the Trust Account's 2018 and 2019 annual reports. Difficulties in preparing accurate financial statements delayed completion of the annual reports. Delays in the completion of the 2019 annual audit of the financial statements contributed to the Ministry's inability to finalize 2019 annual report.

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.

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<sup>7</sup> *The Executive Government Administration Act*, s.13 requires the Minister responsible to table annual reports within 120 days after the year-end of the agency. The Northern Municipal Trust Account has a December 31 year end. The Minister of Government Relations is assigned responsibility for this Trust Account.

