

## Chapter 6 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
- Adequately segregate duties of employees responsible for key accounting functions of the Trust Account

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

The Ministry complied with authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing other than it did not:

- Have clear legislative authority to make grants from the Northern Municipal Trust Account to northern municipalities for landfills not wholly owned by the Ministry.

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

- Provide the Trust Account's 2018 through 2020 annual reports to the Legislative Assembly in accordance with timelines set in *The Executive Government Administration Act*. This was due, in part, to the issues identified above, as it did not prepare accurate financial statements for audit.

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.

The Trust Account's 2020 financial statements are reliable.



## 2.0 INTRODUCTION

The Ministry of Government Relations is responsible for administering the Northern Municipal Trust Account.<sup>1,2</sup> The Trust Account provides 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).
- 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 access to a safe, potable water supply, as well as 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 2020, the Ministry had five staff in La Ronge to administer the Trust Account. An additional eight Ministry staff, located primarily in La Ronge, provide assistance in addition to their regular municipal advisory, community planning, policy analysis, and management responsibilities.

## 2.1 Financial Overview

In 2020, as shown in **Figure 1**, the Trust Account had an annual surplus of \$3.0 million (2019: surplus of \$5.8 million). It managed capital assets (e.g., water treatment plants, sewer systems and buildings) of \$6.0 million (2019: \$5.3 million).

**Figure 1—Financial Overview Highlights**

	Actual 2019	Actual 2020
	(in millions)	
Grants from the Ministry of Government Relations (General Revenue Fund)	\$ 27.8	\$ 26.3
Taxation Revenue	5.1	4.8
Lease Fees Revenue	6.2	5.4
Revenue – Other Sources	2.5	2.1
<b>Total Revenue</b>	\$ 41.6	\$ 38.6

<sup>1</sup> *The Northern Municipalities Act, 2010*, established 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.

	Actual 2019	Actual 2020
	(in millions)	
Grants (e.g., Northern Revenue Sharing, water and sewer)	29.0	28.1
Municipal Services	5.8	5.5
Other Expenses	1.0	2.0
<b>Total Expense</b>	<b>\$ 35.8</b>	<b>\$ 35.6</b>
<b>Annual Surplus</b>	<b>\$ 5.8</b>	<b>\$ 3.0</b>
Total Financial Assets (e.g., Cash, Investments, Accounts Receivable)	\$ 54.9	\$ 52.9
Capital Assets (e.g., water and sewer, buildings, machinery)	\$ 5.3	\$ 6.0
Total Liabilities	\$ 11.0	\$ 6.6

Source: Adapted from the Northern Municipal Trust Account audited consolidated financial statements for the year ended December 31, 2020.

### 3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended December 31, 2020, 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 for contaminated sites. It

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



also assessed whether the Ministry properly recorded the Trust Account's fuel inventory on hand at year-end and its share of the Lac La Ronge Regional Waste Management Corporation.

## 4.0 KEY FINDINGS AND RECOMMENDATIONS

### 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 agreement September 15, 2016)

**Status**—Partially Implemented

The Ministry of Government Relations made some improvements to its financial processes during 2020, but did not review the Trust Account's financial information in sufficient detail. The 2020 audit identified a few significant errors in the Trust Account's accounting records and in the 2020 draft financial statements presented for audit.

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 for preparing financial reports (including year-end financial statements). In addition, the Ministry made staff with suitable accounting expertise in its Corporate Services Division available to support staff responsible for preparing the Trust Account's financial statements. Corporate Services Division staff also review the annual draft financial statements and supporting documents prior to the Ministry presenting them for audit. Providing support and performing detailed review of the financial statements is necessary because Ministry staff responsible for preparing the financial statements do not have robust accounting knowledge.

We found staff responsible for the Trust Account's day-to-day administration sought the timely assistance of the Ministry's Corporate Services Division to help determine the appropriate accounting for more complex items (e.g., recording new revenues).

However, we found staff did not sufficiently assess the reasonableness of year-end information the Ministry of Environment provided about lease fees revenue and contractual rights. The Ministry of Government Relations uses this information to record the Trust Account's lease fee revenues and prepare disclosures about contractual rights in its financial statements. We found the draft financial statements presented for audit did not include lease fees revenue of \$4.6 million, and incorrectly included \$33 million in contractual rights for lease contracts.

Furthermore, staff did not sufficiently review the draft financial statements and supporting information. In addition to the error in contractual rights for lease contracts, we found the draft financial statements did not include \$4.1 million in contractual rights from other

agreements. We also found the draft financial statements incorrectly disclosed amounts for various transactions (understated revenue by \$1.1 million and accounts receivable by \$4.6 million) with related parties.

The Ministry corrected the errors we identified in the draft financial statements before it finalized them. In June 2021, the Ministry hired a Director of Finance and Accounting to provide additional accounting expertise to the Trust Account.

Carrying out detailed review of the Trust Account's financial information helps reduce the risk of errors in accounting records and in financial statements presented for audit. Also, significant errors in the financial statements increases the risk of delays in the completion of the annual audit.

## 4.2 Unclear Authority for Landfill Expansion Grant Payments

***We recommended 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.*** (2020 Report – Volume 2, p. 41, Recommendation 1; Public Accounts Committee has not yet considered this recommendation as of October 29, 2021)

**Status**—Not Implemented

The Ministry of Government Relations made grant payments from the Trust Account for a landfill expansion 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 expanding the Lac La Ronge regional landfill.<sup>5</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 Ministry expects to benefit from the planned landfill expansion as it owns part of the regional landfill.

During 2020–21, the Ministry paid \$1.1 million (2019: \$2.3 million) from the Trust Account for this program. Of the amount paid, \$1.0 million (2019: \$1.8 million) is a grant (government transfer) because the amount benefits municipalities that are not part of the Northern Saskatchewan Administration District.

As of September 2021, neither *The Northern Municipalities Act, 2010*, nor *The Northern Municipalities Regulations* provide authority for the Trust Account to make grants for landfills. In October 2020, the Ministry consulted with legal counsel who indicated this legislation was likely not sufficient authority to make these landfill grant payments. Management indicated they are working on preparing updated regulations to provide clear authority to make landfill grants.

<sup>5</sup> The total estimated capital cost of the regional landfill expansion 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 inconsistent with the mandate of the Trust Account.

### 4.3 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—Partially Implemented**

During 2020, 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. It did improve user access within its accounting IT system to better separate responsibilities of users given access to that system.

The Ministry designated incompatible duties to different staff. During the audit, we found seven instances (2019: 10 instances) where only one person opened the mail and one instance (2019: no instances) where there was no evidence of who opened the mail, recorded the cash or prepared the bank deposit.<sup>6</sup> We also found two instances (2019: no instances), where there was no evidence of who opened the mail or recorded the cash in the accounting records. In addition, we found one management staff involved with opening mail could also prepare the deposit and record amounts in the financial records. Having only one staff member open mail increases the risk that cash or cheques could be lost as the result of fraud or error. This risk increases when the staff member opening the mail is also responsible for significant accounting functions (e.g., preparing the deposit and recording amounts in the financial records).

We also found, for the 65 payments we tested, one managerial employee completed most of the payment processes. This employee checked calculations for payments, approved these payments and also signed the cheques authorizing payments. As a result, the employee could have made inappropriate payments without detection. We reviewed the support for these payments and all appeared to be for appropriate purposes.

Management indicated segregation issues continued in 2020 because of a small number of financial staff in the office due to the COVID-19 pandemic.

In September 2020, the Ministry installed a new security module for the Trust Account's accounting IT system allowing the Ministry to better separate responsibilities of users given access to the system. We found the Ministry properly restricted what users can do within the Trust Account's IT accounting system.

Not properly segregating responsibilities assigned to staff responsible for key accounting functions increases the risk of undetected fraud and error, including inappropriate

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<sup>6</sup> Having two people open the mail is a critical step in segregating duties, as the Trust Account receives cash and cheques in the mail. When two people open the mail it lowers the risk of staff fraudulently taking the cash or cheques.

adjustments to accounting records. This also increases the risk of errors in the Trust Account's financial information.

#### 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 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 the audited financial statements. Difficulties in preparing accurate financial statements delayed completion of the annual reports. The Assembly received the Trust Account's 2018 annual report on February 26, 2021, and 2019 annual report on May 4, 2021.

Delays in the completion of the 2020 annual audit of the financial statements contributed to the Ministry's inability to finalize the Trust Account's 2020 annual report by April 2021.

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.

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

