

Chapter 9

Prairie Agricultural Machinery Institute

1.0 MAIN POINTS

The Prairie Agricultural Machinery Institute (PAMI) complied with its legislative authorities. Other than the following concerns PAMI had effective rules and procedures to safeguard public resources for the year ended March 31, 2021. PAMI did not:

- Adequately review and approve financial information once prepared (e.g., journal entries, banks reconciliations, payroll registers).
- Prepare adequate financial statements for the 2020–21 audit. The financial statements presented for audit contained significant errors. Management corrected these errors; the Prairie Agricultural Machinery Institute 2020–21 financial statements are reliable.

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

2.0 INTRODUCTION

2.1 Background

The Prairie Agricultural Machinery Institute (PAMI) provides product development, testing, and design to both prairie farmers and agricultural machinery manufacturers, as well to the mining and transportation industries. Its mission is “to enhance sustainability and profitability in agriculture and other sectors through research, innovation, adaptation, and knowledge transfer.”¹ At March 31, 2021, PAMI employed 34 employees located in Humboldt, Saskatchewan and Portage la Prairie, Manitoba.

2.2 Financial Overview

As shown in **Figure 1**, in 2021, PAMI had an annual surplus of \$3.9 million (2020: \$1.3 million deficit).

Figure 1—Financial Overview

	Actual 2021	Actual 2020
	(in millions)	
Provincial Transfers:		
Government of Saskatchewan Ministry of Agriculture—Operating	\$ 1.6	\$ 0.8
Government of Manitoba Department of Agriculture, Food and Rural Development—Operating	0.3	0.3
Fee for Service	8.3	8.5

¹ Prairie Agricultural Machinery Institute, *Annual Report 2020–2021*, p. 8.



	Actual 2021	Actual 2020
	(in millions)	
Other Income	0.7	0.1
Donations	3.3	-
Total Revenues	<u>14.2</u>	<u>9.7</u>
Personnel	4.3	5.3
Fee for Service Direct Costs	4.4	3.9
Administration	0.9	1.0
Operating	0.3	0.4
Amortization	0.4	0.3
Other	-	0.1
Total Expenses	<u>10.3</u>	<u>11.0</u>
Operating surplus (deficit) for the year	<u>\$ 3.9</u>	<u>\$ (1.3)</u>
Total Financial Assets (e.g., Cash, Due from General Revenue Fund, Marketable Securities, Accounts Receivable)	\$ 3.5	\$ 3.5
Total Non-Financial Assets (e.g., Tangible Capital Assets, Prepaid Expenses)	\$ 7.2	\$ 4.5
Total Liabilities	\$ 1.9	\$ 3.2

Source: Adapted from the Prairie Agricultural Machinery Institute audited financial statements for the year ended March 31, 2021.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2021, we found, in all material respects:

- **PAMI had effective rules and procedures to safeguard public resources except for the matters described in this chapter**
- **PAMI complied with the following authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Prairie Agricultural Machinery Institute Act, 1999
The Prairie Agricultural Machinery Institute Regulations, 1999
The Financial Administration Act, 1993
The Executive Government Administration Act
 Orders in Council pursuant to the above Acts
 Minister Orders pursuant to the above Acts

- **PAMI 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 PAMI's controls. 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 carried out audit procedures to address significant audit areas identified throughout the audit. Significant audit areas pose a higher risk that focused our audit efforts. The audit included assessing PAMI's processes to record fee-for-service revenue and associated

expenses, forecast its financial activities, calculate and record work-in-progress and deferred revenue related to contracts, and assess the transfer of Western Canada Testing Inc. (WESTEST) assets and liabilities.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Detailed Review of Financial Information Needed

Management did not adequately review and approve financial information once prepared.

Adequate segregation of duties include timely and independent review and approval of key transactions and entries. We found that management neither consistently reviews and approves financial reporting information in a timely manner nor formally documents approval. We found several instances where financial information was not approved. For example, we found:

- Four of seven bank reconciliations tested did not have evidence of review or approval.
- Two of three payroll registers we tested had no evidence of approval prior to staff being paid and entering the payroll transaction into PAMI's accounting system. In addition, of the three payroll registers tested, only one had evidence of approval for the journal entry into PAMI's accounting system.
- We found two of 10 journal entries we tested did not contain evidence of approvals. Our further investigation also found no evidence of approvals for February and March 2021 monthly journal entries.

In 2020, PAMI experienced higher than normal employee turnover due to the COVID-19 pandemic, as well as organizational restructuring, resulting in some employee lay-offs.

Not having an independent review of financial information increases the risk of inaccuracies. Consistent review of the financial information (e.g., review of payroll registers, reconciliations, journal entries) identifies issues and allows for corrective actions in a timely manner. Without adequate review, errors in PAMI's financial information may occur without detection.

1. **We recommend the Prairie Agricultural Machinery Institute require management to conduct a detailed review of financial information (e.g., financial reports, journal entries, reconciliations, payroll registers) prepared by staff responsible for carrying out these duties.**

4.2 Detailed Review of Financial Statements Needed

Management did not prepare adequate annual financial statements for audit; the 2020–21 audit identified significant errors. Management did not review financial information presented for audit in sufficient detail to identify issues.



The financial statements initially presented for audit contained numerous errors. PAMI fully corrected all errors. For example, in 2020–21, Western Canada Testing Inc. (WESTEST) dissolved, transferring all assets and liabilities to PAMI.² PAMI needed to accurately record this significant transaction and provide additional note disclosure in its financial statements to comply with Canadian public sector accounting standards.

We found:

- Management did not complete an assessment on how to account for new and significant transactions (e.g., complete an analysis on recording of deferred revenue related to the WESTEST transfer)
- The notes to the financial statements required various revisions to provide appropriate and complete note disclosure
- The financial statements did not include the correct amounts for accrued liabilities for items such as accounts payable, and employees' salary, vacation, and overtime

When significant transactions occur, we expect management to assess and document key decisions made when preparing financial statements, and adequately review the statements and related support materials before providing information for audit. Having a full review of the statements and support material helps to identify potential errors, as well as confirms the financial statements are appropriate and align with Canadian public sector accounting standards.

2. We recommend the Prairie Agricultural Machinery Institute require a full review of the year-end financial statements by management.

In addition to errors in the financial statements, we also found that PAMI did not follow appropriate procedures when tabling its March 31, 2021, annual report.³ On July 29, 2021, PAMI tabled its annual report, which included the financial statements but did not include the signed auditor's report. Subsequently, on August 12, 2021, PAMI tabled an addendum to its annual report that included the signed auditor's report.

² Western Canada Testing Inc. (WESTEST) incorporated on May 8, 1991 and dissolved March 31, 2021.

³ Section 24 of *The Prairie Agricultural Machinery Institute Act, 1999*, requires that PAMI provide its annual report and financial statements for each fiscal year to the Minister. It further requires the Minister to lay the report and financial statements before the Legislative Assembly (i.e., table the annual report).