

Chapter 3

Prairie Agricultural Machinery Institute

1.0 MAIN POINTS

The Prairie Agricultural Machinery Institute (PAMI) complied with its legislative authorities except that it did not table its March 31, 2022 financial statements with the Legislative Assembly in accordance with legislative requirements. Other than the following concerns, PAMI had effective rules and procedures to safeguard public resources for the year ended March 31, 2022. PAMI did not:

- Accurately track its fee-for-service projects to enable it to properly record related revenue in its financial statements.
- Adequately review and approve financial information once prepared (e.g., journal entries, banks reconciliations).
- Prepare adequate financial statements for the 2021–22 audit. The financial statements presented for audit contained significant errors. Management corrected these errors; PAMI's final audited financial statements are reliable.

Effective processes to track fee-for-service projects allow PAMI to appropriately bill customers for work completed and correctly record fee-for-service revenue in its financial statements.

Appropriate review of financial information helps ensure management and the Board have quality and accurate financial information to make decisions.

2.0 INTRODUCTION

2.1 Background

The Prairie Agricultural Machinery Institute provides product development, testing, and design to both prairie farmers and agricultural machinery manufacturers, as well as 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, 2022, PAMI employed over 30 employees located in Humboldt, Saskatchewan and Portage la Prairie, Manitoba.

2.2 Financial Overview

As shown in **Figure 1**, PAMI had a deficit of \$0.9 million for the year ended March 31, 2022 (2021: surplus of \$3.9 million).

¹ Prairie Agricultural Machinery Institute, *Annual Report 2020–2021*. p. 6.



Figure 1—Financial Overview

	Actual 2022	Actual 2021 restated ^A
	(in millions)	
Provincial Transfers:		
Government of Saskatchewan Ministry of Agriculture – Operating	\$ 0.6	\$ 1.6
Government of Manitoba Department of Agriculture, Food and Rural Development – Operating	0.3	0.3
Fee for Service	3.7	8.6
Other Income	0.6	0.8
Donations	—	3.3
Total Revenues	<u>5.2</u>	<u>14.6</u>
Personnel	3.3	4.3
Fee for Service Direct Costs	0.8	4.7
Administration	1.1	0.9
Operating	0.4	0.4
Amortization	<u>0.5</u>	<u>0.4</u>
Total Expenses	<u>6.1</u>	<u>10.7</u>
Operating (deficit) surplus for the year	<u>\$ (0.9)</u>	<u>\$ 3.9</u>
Total Financial Assets (e.g., Cash, Due from General Revenue Fund, Accounts Receivable)	\$ 2.6	\$ 3.8
Total Non-Financial Assets (e.g., Tangible Capital Assets, Prepaid Expenses)	\$ 6.4	\$ 7.2
Total Liabilities	\$ 1.2	\$ 2.3

Source: Adapted from the Prairie Agricultural Machinery Institute audited financial statements for the year ended March 31, 2022.

^A In 2020–21, a project-related purchase (i.e., expense) was made and not recorded. The related fee-for-service revenue from the customer was also not recorded. PAMI corrected the prior year error in 2021–22 to reflect the correct amounts and restated the 2020–21 amounts.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2022, 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 except for the matter described in this chapter:

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 the significant audit areas identified throughout the audit. Significant audit areas pose a higher risk and are areas where we focused our audit efforts. The audit included assessing PAMI's processes to record fee-for-service revenue and associated expenses (i.e., its projects), forecast its financial activities, and calculate and record work-in-progress and deferred revenue related to projects.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Accurate Tracking Needed for Fee-for-Service Projects

The Prairie Agricultural Machinery Institute did not accurately track the status of its fee-for-service projects and properly record revenue and amounts billed to customers for work completed.

PAMI earns fee-for-service revenue (see **Figure 1**) for its projects conducted for farmers and agricultural machinery manufacturers, and for the mining and transportation industries. Up to August 2021, PAMI used a project listing (i.e., spreadsheet) to track invoices billed, accounts receivable, and deferred revenue.

We found:

- The project listing spreadsheet was incomplete and management did not continue to update the listing after August 2021. In July 2022, management provided a listing of the projects for 2021–22 fiscal year. However, the listing did not contain the information PAMI needed to record fee-for-service revenue in its accounts.
- Adjustments were needed at March 31, 2022, to correct fee-for-service revenue recorded for several projects that were incorrectly recorded in PAMI's accounting system (i.e., invoice amount did not agree to amount recorded in accounting system or management did not enter the invoice amount into the accounting system at all). Management had to adjust fee-for-service revenue recorded in accounting records by over \$300,000 for errors found during the audit (i.e., had to revise the initial draft financial statements provided for audit).

Not having an effective process to track fee-for-service projects increases the risk of PAMI inappropriately billing customers for work completed and incorrectly recording fee-for-service revenue in its financial statements.

1. **We recommend the Prairie Agricultural Machinery Institute accurately track its fee-for-service projects to enable it to properly record related revenue in its financial statements.**



4.2 Proper Review of Financial Information Needed

We recommended 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. (2021 Report – Volume 2, p. 53, Recommendation 1; Public Accounts Committee has not yet considered this recommendation as at November 4, 2022)

Status—Not Implemented

The Prairie Agricultural Machinery Institute did not adequately review and approve financial information once prepared.

Adequate segregation of duties includes timely and independent review and approval of key transactions and entries. We found management neither consistently reviews and approves key financial information nor consistently documents approval. For example, we found:

- Five of six bank reconciliations tested were not reviewed and approved timely. We found management reviewed and approved bank reconciliations between 17 and 124 days after preparation.
- For the period of April 1 to September 30, 2021, management was unable to provide us evidence they approved the payroll registers PAMI uses to enter the payroll transactions into PAMI's accounting system (through journal entries). For the period October 1, 2021 to March 31, 2022, we found documentation of approvals of the payroll registers and the journal entries.
- For five of the 10 journal entries tested, PAMI was unable to locate the journal entry documentation. Therefore, we were unable to verify whether the appropriate individuals prepared and approved the journal entry. In addition, for three other journal entries tested, there was no support for the entry but the entry was approved in accordance with the delegation of authority.
- For one of two accounts receivable reports we tested, it did not have evidence of senior management's review and approval of the report. The report received for the audit to support the accounts receivable balance at March 31, 2022, was overstated by about \$100,000.

Not having an independent review of key financial information increases the risk of inaccuracies and undetected fraud. 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.

4.3 Detailed Review of Financial Statements Needed

We recommended the Prairie Agricultural Machinery Institute require a full review of the year-end financial statements by management. (2021 Report – Volume 2, p. 54, Recommendation 2; Public Accounts Committee has not yet considered this recommendation as at November 4, 2022)

Status—Not Implemented

The Prairie Agricultural Machinery Institute did not prepare adequate financial statements for audit; the 2021–22 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 the audit contained numerous errors and were incomplete.

We found:

- The notes to the financial statements required revisions to provide appropriate and complete note disclosure. For example, the draft notes provided for audit did not contain updated tangible capital asset information, or required contractual rights and contractual obligations note disclosure.
- Management was unable to provide support (i.e., invoices, reports) for amounts included in the financial statements. This required us to perform further testing. Based on our work, management made significant adjustments for financial statement items such as accounts receivable, deferred revenue, and fee-for-service revenue. See **Section 4.1**.

Having a full review of the statements and supporting materials helps to identify potential errors, make informed decisions, as well as confirms the financial statements are appropriate and align with Canadian public sector accounting standards.

Because of the numerous changes required to its financial statements during the audit, PAMI did not table its March 31, 2022 financial statements in accordance with its legislative requirements.² It did not table its 2021–22 annual report and financial statements within 120 days from year-end (i.e., by the end of July 2022) as required by *The Executive Government Administration Act*.

² 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 of Agriculture as *The Executive Government Administration Act* requires. *The Executive Government Administration Act* (section 13) further requires the Minister to lay the report and financial statements before the Legislative Assembly (i.e., table the annual report) within 120 days of the year-end.

