

Chapter 1

Government Relations—Northern Municipal Trust Account

1.0 MAIN POINTS

The Ministry of Government Relations needs to undertake timely, detailed review of the Northern Municipal Trust Account's financial information. We expected to complete the 2021 audit in April 2022, but only completed it in February 2023 because Trust Account management did not provide accurate financial support in a timely manner.

The Ministry did not:

- Adequately supervise staff responsible for recording Trust Account financial information, including ensuring staff have complete and accurate information to prepare financial statements. The Ministry corrected the Trust Account's 2021 draft financial statements by over \$900,000 in February 2023.
- Sufficiently segregate duties of staff responsible for key accounting functions. We found two separate employee timecards without evidence of any review or approval from a second individual.

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

The Ministry also did not:

- Obtain and utilize updated engineering information when estimating costs to decommission Trust Account landfills, and incorporate the new estimated costs into its 2021 draft financial statements submitted for audit
- Have clear legislated authority to make grants from the Trust Account to northern municipalities for landfills not wholly owned by the Ministry

Periodically obtaining and communicating to relevant staff updated cost information related to landfill decommissioning liabilities helps to ensure correct amounts are recorded. Further, in January 2019, the Minister of Government Relations approved a program to fund (through the Trust Account) up to \$4.9 million for the costs related to expanding the Lac La Ronge regional landfill when it did not have clear legislative authority to do so.

Finally, the Ministry did not:

- Provide the Trust Account's annual report to the Legislative Assembly within the timeframes required by law; the Ministry has not tabled the Trust Account's annual report on time since 2014, increasing the risk that legislators do not have sufficient, timely information to monitor the Trust Account's operations.



The Ministry had effective rules and procedures to safeguard the Trust Account's public resources and complied with authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing for the year ended December 31, 2021, other than those areas mentioned above.

The Trust Account's 2021 financial statements are reliable.

2.0 INTRODUCTION

The Ministry of Government Relations is responsible for administering the Northern Municipal Trust Account.^{1,2} 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.³ 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 and the Ministry of Government Relations. It remits these taxes, upon receipt, to the respective entities.

At December 2021, the Ministry had six 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.

2.1 Financial Overview

In 2021, as shown in **Figure 1**, the Northern Municipal Trust Account had an annual surplus of \$1.3 million (2020: surplus of \$3 million). It managed capital assets (e.g., water treatment plants, sewer systems and buildings) of \$6.7 million (2020: \$6 million).

¹ *The Northern Municipalities Act, 2010*, established the Northern Municipal Trust Account and its purposes.

² *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.

³ 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.

Figure 1—Financial Overview

	Actual 2021	Actual 2020
	(in millions)	
Grants from the Ministry of Government Relations (General Revenue Fund)	\$ 25.7	\$ 26.3
Taxation Revenue	3.5	4.8
Lease Fees Revenue	4.7	5.4
Revenue – Other Sources	2.1	2.1
Total Revenue	36.0	38.6
Grants (e.g., Northern Revenue Sharing, water and sewer)	27.1	28.1
Municipal Services	4.9	5.5
Other Expenses	2.7	2.0
Total Expense	\$ 34.7	\$ 35.6
Annual Surplus	\$ 1.3	\$ 3.0
Total Financial Assets (e.g., cash, investments, accounts receivable)	\$ 61.4	\$ 52.9
Capital Assets (e.g., water and sewer, buildings, machinery)	\$ 6.7	\$ 6.0
Total Liabilities	\$ 14.6	\$ 6.6

Source: Adapted from the Northern Municipal Trust Account audited consolidated financial statements for the year ended December 31, 2021.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended December 31, 2021, 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 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.



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.⁴ In addition, the audit assessed the reasonability of management's estimates of lease receivables, accrued landfill decommissioning costs, and liability for contaminated sites. It 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 Committee agreement September 15, 2016)

Status—Partially Implemented

Ministry of Government Relations management did not complete a sufficient or timely review of the Northern Municipal Trust Account's financial information. As a result, the 2021 audit identified some significant omissions in the Trust Account's accounting records and in the 2021 draft financial statements presented for audit. We expected to complete the 2021 audit in April 2022, but only completed it in February 2023 because Trust Account management did not provide accurate financial support in a timely manner.

The Ministry maintains sufficiently robust policies and related procedures to guide staff administering the Trust Account's day-to-day financial activities, and for preparing financial reports (including year-end financial statements). The Ministry hired a Director of Finance and Accounting in June 2021 to assist with preparing and reviewing the Trust Account's financial information and annual financial statements. However, the Director left the Ministry in December 2022.

While we found fewer errors in the financial statements prepared for audit compared to prior years, we received incomplete financial information (e.g., related to contractual rights and obligations information and landfill decommissioning liabilities) from the Ministry for audit in March 2022. Management provided updated information in July 2022 and more accurate information in December 2022 regarding the landfill decommissioning liability (see **Section 4.2**). Providing incomplete and untimely information results in audit delays and increases the risk that significant errors may be present in financial statements.

Ministry management carrying out a timely, detailed review of the Trust Account's financial information helps to reduce the risk of errors in accounting records and in financial statements presented for audit. In addition, timely review reduces the risk of delays in the

⁴ The Ministry of Environment collects lease and land sales revenue on the Trust Account's behalf.

completion of the annual audit and delays in tabling the Trust Account's annual report (see **Section 4.5**).

Timely completion of financial statements also helps to mitigate the risk associated with financial information changing (e.g., new information relating to a significant estimate such as landfill decommissioning liabilities) when significant time elapses between year-end and the date the financial statements are issued.

4.2 Need to Obtain and Share Pertinent Information to Accurately Estimate Landfill Decommissioning Costs

The Ministry of Government Relations had to correct its landfill decommissioning liability estimate in the Northern Municipal Trust Account's 2021 financial statements by over \$900,000. Once it shared updated engineering reports with both accounting staff at the Ministry and with our Office, the Ministry updated the liability.

The Trust Account is responsible for decommissioning 12 different landfills in various communities within the Northern Saskatchewan Administration District.⁵ Canadian public sector accounting standards require the Trust Account to record a liability in its financial statements for the expected costs associated with decommissioning landfills.

In April 2018, the Ministry received two engineering reports that included changes to the estimated costs to decommission two of the landfills the Trust Account is responsible for (i.e. Brabant Lake and Missinipe). Ministry staff received further engineering information for these two landfills in 2022. In 2020, the Ministry received additional engineering reports for four other landfills the Trust Account is responsible for (i.e., Bear Creek, Descharme Lake, Garson Lake, and Sled Lake).

Financial staff responsible to calculate and record the estimate of the landfill decommissioning liability in the Trust Fund's financial statements were not made aware of this updated information until December 2022. As a result, the Ministry did not update the landfill decommissioning liability in the Trust Account's financial statements in a timely manner. The Ministry corrected the Trust Account's 2021 financial statements by over \$900,000 in February 2023 based on this updated information.

Further, the Ministry did not communicate the existence of this updated engineering information to our Office until December 2022 causing additional delays in completing the 2021 audit.⁶

The Ministry plans to obtain an updated engineering report for Uranium City in 2023; however, as of February 2023, it does not plan to obtain updated engineering reports to estimate costs for the remaining landfills it is responsible for (i.e., Little Bear, East Trout, Whelan Bay, Camsell Portage and Kinoosao/Sturgeon). Given the significant increase in costs seen at the six landfills with recent engineering reports completed, a significant risk is present that costs of the remaining six landfills are incomplete or inaccurate.

⁵ The 12 landfills are located in Bear Creek, Descharme Lake, Garson Lake, Sled Lake, Brabant Lake, Missinipe, Little Bear, East Trout, Whelan Bay, Uranium City, Camsell Portage, and Kinoosao/Sturgeon.

⁶ Given the Ministry did not provide updated information to our Office until December 2022, the audits of the Trust Account's financial statements for 2018–20 did not consider this information. Our Office determined the differences would not have a significant nor pervasive impact on the 2018–20 financial statements for the Trust Account as a result of the change in estimate associated with the landfill decommissioning liability.



Landfill decommissioning liabilities are longer term in nature, and the associated costs tend to change over time (e.g., due to changing costs of labour and materials needed, changes to standards used for estimating costs, and/or changes in the levels of contamination).

Not periodically obtaining and communicating to relevant staff updated cost information related to landfill decommissioning liabilities increases the risk that the amounts recorded in the Trust Account's financial statements are incorrect.

1. **We recommend the Ministry of Government Relations regularly update its cost estimates to decommission landfills under the Northern Municipal Trust Account's responsibility.**

4.3 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. (2021 Report – Volume 2, p. 37, Recommendation 2; Public Accounts Committee agreement September 6, 2022)

Status—Not Implemented

The Ministry of Government Relations made grant payments from the Northern Municipal 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 for the costs related to expanding the Lac La Ronge regional landfill.⁷ 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 this landfill.

During 2021, the Ministry paid \$0.3 million (2020: \$1.1 million) from the Trust Account for this program. Of the amount paid, \$0.2 million (2020: \$1 million) is a grant (government transfer) because the amount paid benefits municipalities that are not part of the Northern Saskatchewan Administration District.

As of February 2023, 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.

⁷ 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 that are inconsistent with the mandate of the Trust Account. To December 2022, the Trust account has paid \$3.8 million in grants under the Regional Solid Waste Management program.

4.4 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—Partially Implemented

The Ministry did not properly segregate incompatible duties of staff responsible for approving payroll, and making payments.

We found, for 21 different payments tested, one managerial employee completed most of the payment processes. This employee checked calculations for payments, approved these payments and 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.

We also identified two separate employee timecards where there was no evidence of any review or approval from a second individual. As a result, the employee could have falsified their timecard without detection.

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.

4.5 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 table the Northern Municipal Trust Account's annual report to the Legislative Assembly within the timeframes required by *The Executive Government Administration Act*.⁸ The Trust Account has not tabled its annual report on time since its 2014 annual report.

⁸ *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 the Northern Municipal Trust Account.



According to the law, it expects agencies with December year-ends to table their annual reports by the end of April each year (four months after year-end).

The Trust Account's annual reports include its audited financial statements. Difficulties in preparing accurate financial statements delayed completion of the annual reports. The Assembly received the Trust Account's 2019 annual report on May 4, 2021, and 2020 annual report on April 25, 2022.

Delays in the completion of the 2021 annual audit of the financial statements contributed to the Ministry's inability to finalize the Trust Account's 2021 annual report by April 2022.

Not tabling the Trust Account's annual report within the timelines set in legislation results in legislators having insufficient information to monitor the Trust Account's operations and make informed decisions.