

Chapter 3

Government Relations—Northern Municipal Trust Account

1.0 MAIN POINTS

The Ministry of Government Relations did not adequately support management of the Northern Municipal Trust Account to prepare timely and accurate financial information and statements for the year ended December 31, 2022. As a result, the Trust Account did not table its 2022 annual report by the timeline set out in law. The Trust Account has not tabled its annual report on time in the past eight years.

The Ministry of Government Relations did not:

- Adequately supervise staff responsible for recording Trust Account financial information, including making sure they had complete and accurate information to prepare accurate financial statements.
- Sufficiently support Trust Account management in readying them to implement a new accounting standard related to asset retirement obligations. The Trust Account is not sufficiently prepared to obtain and record reliable costs related to asset retirement obligations in its 2023 financial statements.

We expected to complete the 2022 audit in April 2023, but did not complete it until October 2023 because Trust Account management did not provide financial support in a timely manner.

The Ministry of Government Relations also did not:

- Obtain updated engineering information to accurately estimate the cost to decommission the Trust Account's landfills.
- Have clear legislated authority to make grants from the Northern Municipal Trust Account to northern municipalities for landfills not wholly owned by the Ministry.

Other than those areas mentioned above, 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, 2022.

The Trust Account's 2022 financial statements are reliable.



2.0 INTRODUCTION

2.1 Background

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 areas 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 itself and northern hamlets. It remits these taxes, upon receipt, to the respective entities.

At October 2023, the Ministry had six staff located in La Ronge to administer the Trust Account. An additional seven staff, located primarily in La Ronge, provide assistance in addition to their regular municipal advisory, community planning, policy analysis, and management responsibilities.

2.2 Financial Overview

In 2022, as shown in **Figure 1**, the Trust Account had an annual surplus of \$5.4 million (2021: surplus of \$1.3 million). It managed capital assets of \$7.7 million (2021: \$6.7 million) (e.g., water treatment plants, sewer systems and buildings).

Figure 1—Financial Overview Highlights

	Actual 2022	Actual 2021
	(in millions)	
Grants from the Ministry of Government Relations (General Revenue Fund)	\$ 25.4	\$ 25.7
Taxation Revenue	3.5	3.5
Lease Fees Revenue	7.1	4.7
Revenue – Other Sources	4.2	2.1
Total Revenue	40.2	36.0

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.

	Actual 2022	Actual 2021
	(in millions)	
Grants (e.g., Northern Revenue sharing, Water and Sewer)	27.1	27.1
Municipal Services	4.8	4.9
Other Expenses	2.9	2.7
Total Expense	34.8	34.7
Annual Surplus	\$ 5.4	\$ 1.3
Total Financial Assets (e.g., Cash, Investments, Accounts Receivables)	\$ 59.5	\$ 61.4
Capital Assets (e.g., water and sewer, buildings, machinery)	\$ 7.7	\$ 6.7
Total Liabilities	\$ 8.3	\$ 14.6

Source: Adapted from the Northern Municipal Trust Account audited consolidated financial statements for the year ended December 31, 2022.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended December 31, 2022, 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 issued 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.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

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



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 Adequate Support and Supervision of Financial Staff Needed to Prepare Timely and Accurate Financial Information

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

The Ministry of Government Relations management does not adequately support management of the Northern Municipal Trust Account to prepare timely and accurate financial information and statements. This includes supporting Trust Account management to adequately prepare them to implement a new accounting standard (e.g., identify legal obligations associated with cleaning up or removing hazardous materials at a future date).

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).

However, in December 2022, the Director of Finance and Accounting the Ministry had hired to assist with preparing and reviewing the Trust Account's financial information and annual financial statements left the Ministry. As of October 2023, that position remained vacant. At October 2023, this left one staff member responsible for key Trust Account accounting functions and providing necessary information for purposes of the financial audit. The Trust Account is at significant risk of negative impacts if this remaining key position becomes vacant.

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 completion of the annual audit and delays in tabling the Trust Account's annual report (see **Section 4.3**).

While we found fewer errors in the financial statements prepared for audit compared to prior years, we did not initially receive complete and accurate financial information from the Ministry for the 2022 audit. For example, there was an error of about \$50,000 related to prepaid expenses and the financial statements did not include the Trust Account's share of the Lac La Ronge Waste Management Corporation.

Also, a new Canadian public sector accounting standard for recording asset retirement obligations is effective for fiscal years beginning on or after April 1, 2022. The Ministry has not sufficiently supported Trust Account management to be ready to implement the new accounting standard.

Asset retirement obligations exist for tangible capital assets if there exists a legally enforceable or contractual obligation to remediate the asset on its retirement (i.e., no longer using the asset to provide services). Examples of asset retirement obligations are costs for remediation of asbestos in buildings, decommissioning fuel tanks, decommissioning water and sewage facilities, and decommissioning landfills (see **Section 4.2**).

The Trust Account's December 2023 financial statements will be expected to comply with accounting standards and record asset retirement obligations. As of October 2023, the Ministry had not obtained adequate information to estimate the costs related to asset retirement obligations for the Trust Account. Without sufficient analysis, the Ministry does not know what it will need to pay to clean up these capital assets (e.g., buildings) once they are no longer needed.

Without determining the extent of asset retirement obligations and obtaining adequate information to estimate the costs related to those asset retirement obligations, the Trust Account will not be able to prepare complete and accurate financial statements for December 31, 2023. Complete and accurate financial reporting of the liabilities for asset retirement obligations is important to reflect the full amount of public resources required to clean up these assets in the future.

1. **We recommend the Ministry of Government Relations obtain the necessary information to adopt Canadian Public Sector Accounting Standard 3280 – Asset Retirement Obligations for the year ending December 31, 2023.**

4.2 Updated Information to Accurately Estimate Landfill Decommissioning Costs Needed

We recommended the Ministry of Government Relations regularly update its cost estimates to decommission landfills the Northern Municipal Trust Account is responsible for. (2023 Report – Volume 1, p. 18, Recommendation 1; Public Accounts Committee has not yet considered this recommendation as of November 3, 2023)

Status—Not Implemented

The Ministry of Government Relations has not obtained updated information to accurately estimate landfill decommissioning costs for six of the landfills under Northern Municipal Trust Account responsibility.

The Trust Account is responsible for decommissioning 12 different landfills in various communities within the Northern Saskatchewan Administration District.⁵ Canadian public

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



sector accounting standards require the Trust Account to record a liability in its financial statements for the expected costs associated with decommissioning landfills.

The Ministry increased its estimate for the landfill decommissioning liability by over \$900,000 in the Trust Account's 2021 financial statements based on updated information (i.e., engineering reports) for six of the 12 landfills that the Trust Account is responsible for (i.e., Brabant Lake, Missinipe, Bear Creek, Descharme Lake, Garson Lake, and Sled Lake).

As of October 2023, the Trust Account has not obtained updated engineering reports to sufficiently estimate costs for the remaining six landfills that it is responsible for (i.e., Little Bear, East Trout, Whelan Bay, Camsell Portage, and Kinoosao/Sturgeon). Given the significant increase in cost estimates for the six landfills with recent engineering reports completed, there is a significant risk that the costs of the remaining six landfills are incomplete or inaccurate.

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 the amounts recorded for decommissioning landfills in the Trust Account's financial statements are incorrect.

4.3 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 continues not to table the Northern Municipal Trust Account's annual report to the Legislative Assembly within the timeframes required by *The Executive Government Administration Act*.⁶ The Trust Account has not tabled its annual report on time since its 2014 annual report.

According to the Act, it is expected agencies with December year-ends 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 delay completion of its annual reports.

⁶ *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.

The Assembly received the Trust Account's 2020 annual report on April 25, 2022. As of October 16, 2023, the Ministry has not yet tabled the Trust Account's 2021 annual report. We issued our audit opinion on the 2021 financial statements on March 7, 2023.

Delays in the completion of the 2022 annual audit of the financial statements contributed to the Ministry's inability to finalize the Trust Account's 2022 annual report by April 2023.

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.

4.4 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 continues to make 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 2022, the Ministry paid \$0.7 million (2021: \$0.3 million) from the Trust Account for this program. Of the amount paid, \$0.6 million (2021: \$0.2 million) is a grant (government transfer) because the amount paid benefits municipalities that are not part of the Northern Saskatchewan Administration District.

As of October 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. Ministry management indicated they are working on preparing updated regulations to provide clear authority to make landfill grants, but no changes were made by October 2023.

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. Up to December 2022, the Trust Account had paid \$3.7 million in grants under the Regional Solid Waste Management program.

4.5 Segregation of Incompatible Duties Improved

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—Implemented

The Ministry of Government Relations adequately segregated incompatible duties of staff responsible for making and approving transactions.

During our audit, we found only one instance of inappropriate segregation of duties. We found the same employee prepared and approved three of the 35 journal entries that we tested. As a result, the employee could have made inappropriate journal entries without detection. However, we reviewed the support for these three journal entries and all appeared to be appropriate and reasonable.

Properly segregating responsibilities assigned to staff responsible for key accounting functions reduces the risk of undetected fraud and error, including inappropriate adjustments to accounting records. This also reduces the risk of errors in the Trust Account's financial information.