

Chapter 7

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, 2023. PAMI did not:

- Adequately review and approve financial information once prepared (e.g., journal entries, bank reconciliations).
- Prepare adequate financial statements for the 2022–23 audit. The financial statements presented for audit contained significant errors. Management corrected these errors; PAMI's financial statements are reliable.

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

During the year, PAMI improved its processes to accurately track its fee-for-service projects and record the amounts invoiced to customers for work completed.

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, 2023, PAMI employed over 20 employees in Humboldt, Saskatchewan and Portage la Prairie, Manitoba.

2.2 Financial Overview

As shown in **Figure 1**, PAMI had a surplus of \$1.2 million for the year ended March 31, 2023 (2022: deficit of \$0.9 million).

Figure 1—Financial Overview

	Actual 2023	Actual 2022
	(in millions)	
Provincial Transfers		
Government of Saskatchewan Ministry of Agriculture – Operating	\$ 1.4	\$ 0.6
Government of Saskatchewan Ministry of Agriculture – Capital	1.5	-
Government of Manitoba Department of Agriculture, Food and Rural Development – Operating	0.3	0.3

¹ Prairie Agricultural Machinery Institute, 2021–2022 Annual Report, p. 6.



	Actual 2023	Actual 2022
	(in millions)	
Fee for Service	4.4	3.7
Other Income	0.1	0.6
Gain on sale of asset	0.1	-
Total Revenues	7.8	5.2
Personnel	2.6	3.3
Fee for Service Direct Costs	0.7	0.8
Administration	2.1	1.1
Operating	0.7	0.4
Amortization	0.5	0.5
Total Expense	6.6	6.1
Annual surplus (deficit)	\$ 1.2	\$ (0.9)
Total Financial Assets (e.g., cash, due from General Revenue Fund, accounts receivable)	\$ 4.6	\$ 2.6
Total Non-Financial Assets (e.g., tangible capital assets, prepaid expenses)	\$ 6.3	\$ 6.4
Total Liabilities	\$ 1.8	\$ 1.2

Source: Adapted from the Prairie Agricultural Machinery Institute audited financial statements for the year ended March 31, 2023.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2023, 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 the significant audit areas identified throughout the audit. Significant audit areas 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. We also assessed PAMI's conversion of its general ledger between two financial systems and determined the opening April 1, 2022 balances were complete and accurate.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Accurately Tracking Fee-for-Service Projects

We recommended the Prairie Agricultural Machinery Institute accurately track its fee-for-service projects to enable it to properly record related revenue in its financial statements. (2022 Report – Volume 2, p. 25, Recommendation 1;

Public Accounts Committee has not yet considered this recommendation as of November 3, 2023)

Status—Implemented

The Prairie Agricultural Machinery Institute accurately tracked the status of its fee-for-service projects and properly recorded the amounts invoiced to customers for work completed.

PAMI completes projects for various industries and earns fee-for-service revenue (2022–23: \$4.4 million according to **Figure 1**). Beginning in November 2022, PAMI began tracking when it invoiced all projects using a spreadsheet. In addition, employees keep invoices in either the financial system or on the network with all supporting project information (e.g., contracts).

For all invoices not in the spreadsheet prior to November 2022, we were able to view them in the financial system or project folder on the network.

Having an effective process to track fee-for-service projects allows PAMI to appropriately invoice customers for work completed and correctly record fee-for-service 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 of November 3, 2023)

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 financial reporting information nor consistently documents approval. For example, we found:

- Four of nine receipts tested did not have formal documentation of the approver of the deposit slip. Another receipt tested did not have segregation of duties between the preparer and approver of the deposit slip. This increases the risk of not correctly recording or depositing cash receipts in the bank account.
- Five monthly task checklists reviewed did not have proper review and approval after another individual prepared certain financial information (e.g., bank reconciliations, monthly amortization).²
- For one accounts receivable report tested, it did not have evidence of senior management's review and approval of the report. By not having formal review, management may not be aware of accounts outstanding that need to be collected or followed up on.
- Five of six bank reconciliations tested did not note who prepared it. In addition, for all 12 bank reconciliations completed for the year, there was only one bank reconciliation that was reviewed and approved in a timely manner. Not reviewing bank reconciliations timely increases the risk of errors going undetected.
- For all 10 journal entries tested, we were unable to see evidence of review and approval of the entries.
- For two of the monthly financial statements tested, the year-to-date budget numbers for operating and administration expenses did not agree to the Board-approved budget. In addition, management did not use the Board-approved budget consistently during the year (i.e., different budget used in the monthly statements). Not using the Board-approved budget increases the risk of not sufficiently monitoring PAMI's financial position.

Not having an independent review of financial information increases the risk of inaccuracies. Consistent review of the financial information (e.g., review of 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.

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 of November 3, 2023)

Status—Not Implemented

² PAMI started this checklist and review process in October 2022.

The Prairie Agricultural Machinery Institute did not prepare adequate financial statements for audit; the 2022–23 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:

- PAMI understated its annual surplus by \$637,000 from the first version of the draft financial statements to the final version. For example, PAMI understated its provincial transfers—Government of Saskatchewan Ministry of Agriculture—operating revenue by \$590,000.
- The cash flow statement in the first several versions of the financial statements received did not balance, and did not agree to the cash balance on the statement of financial position.
- The notes to the financial statements required revisions to provide appropriate and complete note disclosures. For example, PAMI understated contractual rights by \$600,000, and understated contractual obligations by \$111,000 due to not reviewing contracts to determine amounts extending past year-end.

Having a full review of the draft 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.

