

Appendix F2-B
Sample Audit Contract and Scope

Revised December 2018

THIS MEMORANDUM OF AGREEMENT made this ____ day of _____ A.D. 2019.

BETWEEN:

THE GOVERNMENT OF MANITOBA,
represented by the
Minister of Indigenous and Northern Relations
(hereinafter referred to as Manitoba)
and

(hereinafter referred to as Community)

OF THE FIRST PART

- and -

(hereinafter referred to as Auditing Firm)

OF THE SECOND PART

WHEREAS Manitoba and the Community desire that the Auditing Firm performs certain audit services;

AND WHEREAS the Auditing Firm has represented to Manitoba and the Community a willingness to provide the services required by Manitoba and the Community;

AND WHEREAS the parties wish to formalize their relationship.

NOW THEREFORE the parties covenant and agree as follows:

SECTION 1 - TERM OF AGREEMENT

This Agreement comes into effect on the date of signing and shall continue in force until August 31, 2020, unless terminated before or extended beyond that date as hereinafter provided. This Agreement constitutes the auditing services for the two fiscal years ending March 31, 2019 and March 31, 2020.

SECTION 2 - SERVICES TO BE PROVIDED

The Auditing Firm shall perform the auditing services as outlined in the audit scope in Appendix I for two fiscal year ends.

SECTION 3 - PERFORMANCE OF AUDITING FIRM OBLIGATIONS

- 3.1 The Auditing Firm shall not perform both auditing services and non-auditing services such as bookkeeping or co-management services for the same Community.
- 3.2 The Auditing Firm represents and warrants that the Auditing Firm possesses the necessary skills, expertise and experience to perform the required services in accordance with the provisions of this Agreement.
- 3.3 The Auditing Firm agrees to appoint a qualified and competent person as the auditor who shall be responsible to see to the performance of the Auditing Firm and hereby appoints _____ as the auditor for this Agreement. If the Auditing Firm requires that a replacement person be appointed after this Agreement has been signed, both the Auditing Firm and the Community must agree to the new auditor.

SECTION 4 - FEES

- 4.1 Subject to the following subsections, in consideration of services performed to the satisfaction of Manitoba and the Community, the Auditing Firm will invoice the Community and the Community shall pay to the Auditing Firm a fee of \$_____ for the March 2019 fiscal year end and a fee of \$_____ for the March 2020 fiscal year end.
- 4.2 The Auditing Firm must provide to the community a detailed written request of the records required to complete the audit four weeks prior to the date the records are required. The Auditing Firm may bill an extra fee of 5 per cent bi-weekly of the total amount of its audit fee if it has not received the accounting records by the due date provided to the community. Documentation showing the dates that the records were requested and received is required. Where the audit firm is unable to complete the audit due to not receiving the required records in time to complete the audit, they are to provide the appropriate audit report and certifications by July 31 for the fee specified. Manitoba, the Community and the Auditing Firm may agree to additional services at a mutually agreeable price and such additional services are not to exceed 10 per cent of the value of the contract.
- 4.3 If additional work is required to complete the audit as a result of the Community not preparing the required schedules or documentation, a written request must be submitted to Celia Lima by fax at 204-677-6753. All additional work must be approved prior to starting to ensure payment will be made for the service rendered.

- 4.4 Where all conditions of this contract are met and Manitoba has not received the audited financial statements including all the required reports and certifications by August 31; Manitoba and/or the Community shall impose a penalty of 10 per cent per week of the contract fee for each and every week, and part thereof, that the required reports are late.
- 4.5 All invoices shall be satisfactory to the Community in both form and content.
- 4.6 The Community shall endeavour to pay the Auditing Firm any fees due within 30 days after the receipt and approval of an invoice.
- 4.7 Those invoiced fees not paid by the Community within 60 days of receipt and approval shall bear interest from the 60th day at the following rate:

Prime Interest Rate (as determined by Manitoba Finance)

SECTION 5 - ASSISTANCE FROM THE COMMUNITY

The Community agrees to make available to the Auditing Firm documents, records and assistance from officers and employees of the Community as, in the opinion of the Community or Manitoba, be reasonably necessary to assist the Auditing Firm in the performance of services under this Agreement.

SECTION 6 - OWNERSHIP OF INFORMATION

- 6.1 All information, data, research, documents, photographs and materials produced by the Auditing Firm, or any officers, employees or agents of the Auditing Firm, in the performance of this Agreement, and all copyright therein, shall be the property of the Auditing Firm pertaining to this engagement.
- 6.2 The Auditing Firm agrees to lend its audit files to Manitoba or its nominee upon request without cost to Manitoba.

SECTION 7 - LIABILITY

- 7.1 Manitoba and the Community shall not be liable for any injury to the Auditing Firm, or to any officers, employees or agents of the Auditing Firm, or for any damage to or loss of property of the Auditing Firm, or of the officers, employees or agents of the Auditing Firm, caused by or in any way related to the performance of this Agreement.

7.2 Subsection 7.1 does not apply if the injury, damage or loss was caused by the wrongful or negligent act of any officer or employee of Manitoba or the Community while acting within the scope of his or her employment.

SECTION 8 - TERMINATION

Without restricting any other remedies available, Manitoba or the Community may, at its sole option, immediately terminate this Agreement by written notice giving reasons, if:

- (i) in the opinion of Manitoba or the Community, the services provided by the Auditing Firm are unsatisfactory, inadequate, or are improperly performed
- (ii) in the opinion of Manitoba or the Community, the Auditing Firm has failed to comply with any term or condition of this Agreement
- (iii) the Auditing Firm becomes bankrupt or insolvent
- (iv) the funding status of the Community changes (for example, Local Government Services Program funded to trust)

SECTION 9 - ENTIRE AGREEMENT

This document contains the entire agreement between the parties. There are no undertakings, representations, or promises, expressed or implied, other than those contained in this Agreement.

SECTION 10 - AMENDMENTS

No amendment or change to, or modification of, this Agreement shall be valid unless it is in writing and signed by all parties.

SECTION 11 - NOTICES

11.1 Any notice or other communication to the Auditing Firm under this Agreement shall be in writing and shall be sent to the Auditing Firm to:

11.2 Any notice or other communication to the Community under this Agreement shall be in writing and shall be delivered or sent to:

11.3 Any notice or other communication to Manitoba under this Agreement shall be in writing and shall be delivered or sent to:

Celia Lima
Municipal Audit and Tax Manager
Manitoba Indigenous and Northern Relations
Finance and Administration Branch
59 Elizabeth Drive (Box 37)
Thompson, MB R8N 1X4

This Agreement has been executed by the Community, the Minister of Indigenous and Northern Relations on behalf of the Manitoba government and by the Auditing Firm on the dates noted below.

SIGNED IN THE PRESENCE OF:

_____	_____
Witness	Community Signature

	Date

_____	_____
Witness	Director of Finance for the Minister of Indigenous and Northern Relations

	Date

_____	_____
Witness	Auditing Firm Signature

	Date

APPENDIX I
AUDIT SCOPE
For Fiscal Years 2018/19 and 2019/20

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I Introduction

This audit scope is provided for the auditors who perform annual attest audits on the Northern Affairs (NA) communities. The Finance and Administration Branch of Manitoba Indigenous and Northern Relations (INR), produces this document to advise the auditors of special audit considerations which apply. It is the department policy that an audit contract be signed prior to the provision of any audit services to a NA community. Although the Local Government Services Program (LGSP) funded communities select their own auditor, Finance and Administration Branch must sign all audit contracts for any unincorporated NA community.

II Nature of Services Required

The Accounting Firm shall perform an audit for the purpose of expressing an opinion on the financial statements and schedules of the Community for the fiscal year ending March 31st. The examination of the financial statements is to be performed in accordance with *Canadian Generally Accepted Auditing Standards*. The following is a list of reports to be submitted as a result of the audit:

1. An attest audit report is to be issued on the examination of the financial statements. It is to report whether the financial statements present fairly the financial position and the results of operations in conformity with *Canadian Generally Accepted Accounting Principles* and the *CICA Handbook*. The audit report is to address the issue of evaluation of internal control procedures on specific account balances including internal control on cash, locally generated revenue and reserve fund investments.
2. INR has an approved financial statement format that communities are required to use which has been updated in accordance with *Public Sector Accounting Board* rules. The communities are provided with the *Financial Management Guide* (FMG) which provides the necessary format. See Appendix A for details on required financial statements and schedules. While the department recognizes that it is Community management's responsibility to prepare the financial statement, we want to emphasize that it is the auditor's responsibility to ensure that the proper reporting format is used and that there are no material errors. A standard financial statement template in Excel is available upon request.
3. Consolidated financial statements include the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all the agencies, local boards and committees which are controlled by the Community. Control is defined as the power to govern the financial and reporting policies of another organization with the expected benefits or risk of loss to the Community. The controlled organizations are consolidated after adjusting their accounting policies to a basis consistent with the accounting policies of the Community and inter-company balances and transactions have been eliminated. The notes to the financial statements should clearly indicate the reporting entity and consolidated entities.
4. The notes to the financial statements should report the existence of any related party transactions, contingent events and any material subsequent events that affect the financial statement fairness to the readers.

5. A report on compliance with Bill 57 as required by The Public Sector Compensation Disclosure Act. Under the act, all grant recipients who meet the established criteria must provide this certification to the granting department (in this case, INR) within six months of year-end.
6. A report on compliance with the reserve requirements with INR. This report is to include certification that the balances of reserve accounts reported on the Community financial statements exist in the form of deposits invested in guaranteed interest bearing investments in order to be in compliance. It must clearly state whether the reserve funds are in an investment, in term deposits, or in a separate bank account. The schedule of amounts distributed as reserves will be given to the auditors by Finance and Administration Branch (FAB) of INR.
7. A report on compliance with the legislation regarding the Municipal Employees Benefit Program (MEBP).
8. A management letter, which is detailed in Part IV, is to be issued.
9. A letter providing full disclosure as per the CICA guidelines on public sector accounting practices including the confirmation of reserves with the fund invested and revenue confirmation from all outside sources.

If a denial of opinion is warranted on the audit of the financial statements, the audit firm is required to list all auditing procedures taken to reach such conclusion. The audit report still requires a management letter to be issued which is detailed in Section IV.

Copies of the audited financial statements complete with the auditor's report and the required supplemental reports listed above are to be distributed in paper and digital format as per Appendix C prior to August 31.

III Legal and Regulatory Items

INR must be a signatory to all contracts as unincorporated communities are not legal entities.

NA communities are subject to compliance with various acts and regulations and community bylaws. The more significant ones include:

- The Northern Affairs Act
 - of special note is the maximum honorarium and per diem expenses paid to council members is stipulated by regulation 252/2006 (see Appendix B)
- The Public Sector Compensation Disclosure Act
- certain sections of The Municipal Act and its regulations
 - of special note are the requirements with respect to the write-off of accounts receivables
- Municipal Employees Benefit Plan (MEBP) – The eligible employees to MEBP plan must be enrolled as per the legislation. If not, the Community is exposed to large financial risks, in the event of an accident or death. It is also the duty of the Community to monitor the contribution and benefits of the MEBP-covered employees as per the act.
- The normal federal and provincial acts and regulations which apply to businesses.

IV Management Letter

It is important that the Community is in compliance with the statutes and regulations governing its operation. The management letter, which must be submitted to the department along with the audit, is to:

- Report where a Community is not in compliance with provisions of the requirements of any governing legislation.
- Report where a Community is not following a department policy.
- Highlight the materiality level tested for the specific audit for information purposes.
- Report where a policy set for a LGSP funded community does not provide adequate control.
- Report where a community procedure does not provide adequate controls to ensure that financial information is timely and accurate and that community assets are protected. This includes ensuring that expenditures relate to municipal services as defined in the *Northern Affairs Manual of Policies and Procedures* and that goods and/or services are received for all payments made.
- Report on the assessment and list any deficiencies found in management controls on the areas listed in Appendix A.

V Timing

The following timeline is suggested in order to meet the August 31 reporting deadline:

<u>EVENT</u>	<u>DATE</u>
• FAB distributes a copy of the current contract and audit scope (see Note 1).	November 15
• LGSP communities select the audit firm for their March 31 year end audits and forwards three signed copies of the audit contract and a copy of the council resolution appointing the auditor with the audit fee to FAB.	February 15
• FAB forwards the signed contracts and a copy of the current audit scope to the audit firm (see Note 2).	March 1
• FAB forwards the tangible capital asset list to the community.	April 15
• Records received by audit firm from the community.	June 1
• FAB forwards the revenue confirmations to the audit firm.	June 15
• Latest date for audit exit interviews to be conducted in the presence of the Municipal Development Consultant (MDC) and the Community Administrative Officer or over the phone.	August 1
• Latest date for MDC review of the audited statements.	August 10
• Latest date for council to hold a special meeting for approval of audited statements.	August 15
• Latest date for auditor to send report to community and department.	August 31

Notes:

1. LGSP communities may require additional schedules to meet community requirements.

2. The audit firm is requested to sign all three copies of the audit contract. One copy is to be sent to the community, one to the department and one copy kept for the audit firm's records.

VI REVENUE CONFIRMATIONS

The department will supply revenue confirmation of all payments made from the Northern Affairs Fund to each community to the audit firm. The contact person for this information is:

Trust Fund Administrator
Manitoba Indigenous and Northern Relations
Box 37, 59 Elizabeth Drive
Thompson, MB R8N 1X4
Phone: 204-677-6613
Fax: 204-677-6753

Revenue confirmations for other sources of revenue should be obtained from the originating department, for example Manitoba Hydro or Sport, Culture and Heritage.

Appendix A

Accounting Policy, Required Financial Statements and Schedules and Management Controls

Accounting Policy

Manitoba Indigenous and Northern Relations (INR) has requirements which may be considered as exceeding CICA requirements. If an audit firm tenders or accepts appointment as an auditor for a Northern Affairs (NA) community, this affirms that the audit firm accepts the following requirements, terms and conditions:

- The financial statement for NA communities must be on a full accrual basis. Funding received with outstanding obligations must be recorded as unearned revenue. Where the obligation has been partially fulfilled, the part of the revenue earned should be recognized with the balance remaining as unearned revenue.
- To be meaningful, it is important that all communities classify revenue and expenditures accurately and consistently. As a result, every community is required to report in accordance with department specifications. Communities must use the financial statement format, including the account codes and names as outlined in the *Financial Management Guide* (FMG). Items are to be coded and reported for financial statement purposes in accordance with these specifications. The audit firm agrees to consider any reporting of revenues or expenditures in an account other than the account specified for the type of revenue/expenditure as a classification error which is just as significant as any other error.
- It is accounting policy that the reporting of revenue and expenditures are in accordance with budgeting criteria. The FMG outlines how revenue and expenditures are budgeted and reported.
- Although NA communities are legally part of INR, department management and staff have no control over day to day community operations, record keeping and financial reporting. The department directors rely on community financial statements to make financial decisions with respect to funding in the same way that an investor or lender may rely on statements.
- The department must approve all debt incurred by a Community that is carried forward from one year into the next. For this purpose, debt includes unfulfilled obligations related to conditional funding received from the Manitoba government and others, bank overdrafts and future lease obligations. Per department policy, certain funds provided to communities are conditional. The department is concerned with any error relating to conditional funding, including classification errors which would result in an undisclosed liability.

Required Financial Statements

The March 31 financial statements to be audited and included in the audit package must include the following:

- 1) Statement of Financial Position – The format for the balance sheet is shown in Appendix J of the FMG. The description of the funds for reserves must be clear on the financial statements as to whether the funds are in an investment, in term deposits, or in a separate bank account.

- 2) Statement of Operations – The format for the income statement is shown in Appendix K of the FMG. Revenue from the department for operating and maintenance must be shown as a separate line item from other grants. Locally generated revenue must be subtotalled within the revenue section of the income statement.
- 3) Statement of Cash Flows – The format for the statement of cash flows is shown in Appendix L of the FMG.
- 4) Statement of Change in Net Financial Assets.

Required Schedules

The following schedules are required as at March 31:

- 1) Schedule of Expenses – A schedule must be prepared identifying total expenses by expense line item for example wages, training, travel.
- 2) Program Expenses – A schedule must be prepared identifying the expenses for each program, for example Administration, Public Works, Recreation. A report guideline is shown in Appendix M of the FMG.
- 3) Schedule of Locally Generate Revenue – A locally generated revenue schedule must be prepared identifying community revenue from service fees and other local revenue. A report guideline is shown in Appendix N of the FMG.
- 4) Schedule of Reserves – A reserves schedule must include totals for each reserve fund, for example waste disposal site cell replacement, water breaks. It must also include the current year contribution amount, investment interest and withdrawals. A report guideline is shown in Appendix O of the FMG.
- 5) Schedule of Tangible Capital Assets – A schedule must be prepared for all tangible capital assets including cost, accumulated amortization, net book value and annual amortization. A report guideline is shown in Appendix P of the FMG.
- 6) Accounts Payable – An aged listing of all outstanding payables by vendor/supplier must be included.
- 7) Accounts Receivable – An aged listing of all outstanding receivables by customer/funding agency must be submitted separately to the department, but not included as part of the audit report.

Management Controls

It is the Community's responsibility to ensure proper internal control procedures are implemented and adhered to. The following indicates areas where management controls are required:

- **General**
 - All decisions of council must be by council resolution.
 - Council minutes need to be approved by council at the next council meeting. The minutes need to be endorsed by the chair of the meeting in which they were approved and by the community administrative officer.

- Monthly financial statements need to be approved by council at the next council meeting.
- **Revenue**
 - Communities need to have an internal control system for recording and collecting all locally generated revenue.
 - Rates for all services provided must be approved by council resolution.
 - Receipts are pre-numbered using Sage 50 software.
- **Payroll**
 - All employees, including casual employees, are hired by council resolution.
 - Each permanent employee must have a current employee agreement signed by the employee and supervisor. The standard employee agreement to be used by communities is in Appendix A of the *Employee Management Guide*.
 - Each permanent employee must have a current job description.
 - All employees must have a designated supervisor.
 - There must be time sheets to support each payroll cheque to all employees which is signed by the employee's appointed supervisor.
 - Each employee's performance should be appraised at least once during the year by the appointed supervisor.
 - Each employee should have a training plan in place which addresses any deficiencies identified in the employee's most recent appraisal.
- **Expenditures**
 - All expenditures must be pre-authorized by council resolution or via a purchase order signed by someone delegated to do so by council resolution.
 - All invoices must have the receipt of goods indicated and are to be marked paid with the cheque number recorded on the invoice.
 - All cheques are pre-numbered and require two signatures.
 - All expenditures from the capital replacement reserve require department approval.
 - All disbursements from maintenance/operating reserves require a resolution by council. Expenditures must relate to the purpose for which each particular reserve was established.
- **Cash**
 - Receipts must be deposited on a weekly basis if the amount exceeds \$200.
 - Bank reconciliations must be completed on a monthly basis and balance to the general ledger.

Appendix B
Council Compensation Regulation

THE NORTHERN AFFAIRS ACT
(C.C.S.M. c. N100)
Council Compensation Regulation

The information in this appendix is taken from Manitoba Regulation 252/2006.

1) Honorarium for Communities

The maximum monthly honorarium payable to a mayor or councillor for a community is the amount specified in the following table:

Population of Community	Position	Monthly Honorarium
0 to 74	Mayor	\$150
	Councillor	\$115
75 to 150	Mayor	\$220
	Councillor	\$170
151 to 300	Mayor	\$240
	Councillor	\$190
301 and greater	Mayor	\$300
	Councillor	\$250

2) Monthly Payments to a Maximum Amount

If an honorarium is paid to a mayor or councillor, it must be paid on a monthly basis.

3) Per Diems and Expenses

If a member conducts business outside the community boundary, the per diem rate must not exceed \$120 per day or \$120 pro rated if less than a full work day was required.

The living and travel expenses paid to a member conducting business outside the community boundary must not exceed the amounts or rates payable to Manitoba government employees.

Appendix C
Report Distribution List

Paper copies:

1. ~ Community Council
2. Celia Lima
Municipal Audit and Tax Manager
Manitoba Indigenous and Northern Relations
Box 37, 59 Elizabeth Drive
Thompson, MB R8N 1X4

Electronic copy:

1. Freda Albert
Executive Director
Freda.Albert@gov.mb.ca
2. Celia Lima
Municipal Audit and Tax Manager
Celia.Lima@gov.mb.ca

Northern Region

3. Armand Barbeau
Regional Director - Northern Region
Armand.Barbeau@gov.mb.ca

and

4. Municipal Development Consultant

or

Kari Halleux
Municipal Development Consultant
Kari.Halleux@gov.mb.ca

or

Municipal Development Consultant

North Central Region

3. Stew Sabiston
Regional Director - North Central Region
Stewart.Sabiston@gov.mb.ca

&

4. Crystal Dumas
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