

APPENDIX I
AUDIT SCOPE
For Fiscal Year 2016/17 & 2017/18

TABLE OF CONTENTS

	PAGE
I Introduction	2
II Nature of Services Required	2
III Legal & Regulatory Items	3
IV Management Letter	4
V Timing	5
VI Revenue Confirmations	5
Appendix A: Accounting Policy, Required Financial Statements & Schedules	
Appendix B: Council Compensation Regulation	
Appendix C: Report Distribution List	

I INTRODUCTION

This audit scope is provided for the auditors who perform annual Attest Audits on the Indigenous Relations communities. The Financial & Administrative Services Branch of the Department of Indigenous and Municipal Relations, Indigenous Relations Division produces this document to advise the auditors of special audit considerations which apply. It is Indigenous & Municipal Relations policy that an audit contract is signed prior to the provision of any audit services to an Indigenous Relations community. Although the “Local Government Services Program (LGSP)” funded communities select their own auditor, Financial & Administrative Services must sign all audit contracts for any unincorporated Indigenous Relations 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. The Department of Indigenous and Municipal Relations 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" 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 the 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, Indigenous and Municipal Relations) within six months of year-end.
6. A report on compliance with the reserve requirements with the Department of Indigenous and Municipal Relations. 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 the Finance & Administrative Services branch of the Division of Indigenous Relations, Department of Indigenous and Municipal Relations.
7. A report on compliance with the legislation regarding the Municipal Employee Benefits Program.
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 31st.

III LEGAL & REGULATORY ITEMS

Indigenous and Municipal Relations must be a signatory to all contracts as unincorporated communities are not legal entities.

Indigenous Relations communities are subject to compliance with various Acts and regulations and community by-laws. The more significant ones include:

- *The Northern Affairs Act*
 - Of special note is that 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* [old and current] and its regulations.

- Of special note are the requirements with respect to the write-off of Accounts Receivables.
- *Municipal Employee 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 an Indigenous and Municipal Relations departmental policy.
- Highlight the materiality level tested for the specific audit for information purposes.
- Report where a policy set for a local government services program (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 Local Government Development 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 31st reporting deadline:

<i>EVENT</i>	<i>DATE</i>
• Financial & Administrative Services branch distributes a copy of the current Contract and Audit Scope. (See Note 1)	November 15 th
• LGSP communities select the audit firm for their March 31 st 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 Financial & Administrative Services.	February 15 th
• Financial & Administrative Services branch forward the signed contracts and a copy of the current audit scope to the audit firm. (See Note 2)	March 1 st
• Financial & Administrative Services branch forward the Tangible Capital Asset list to the community	April 15 th
• Records received by audit firm from the community.	June 1 st
• Financial & Administrative Services branch forward the Revenue Confirmations to the audit company.	June 15 th
• Latest date for audit exit interviews to be conducted in the presence of the Municipal Development Consultant (MDC) and the Community Administrative Officer (CAO) or over the phone.	August 1 st
• Latest date for Municipal Development Consultant review of the audited statements.	August 10 th
• Latest date for council to hold a special meeting for approval of audited statements.	August 15 th
• Latest date for Auditor to send report to community and department.	August 31 st

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

Manager, Financial Services
Aboriginal & Northern Affairs
Box 37, 59 Elizabeth Drive
Thompson MB R8N 1X4
Phone: 677-6613
Fax: 677-6753

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

APPENDIX A

Accounting Policy

Indigenous and Municipal Relations has requirements which may be considered as exceeding CICA requirements. If an audit firm tenders or accepts appointment as an auditor for an Indigenous Relations community, this affirms that the audit firm accepts the following requirements, terms and conditions:

- The financial statement for Indigenous Relations 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 departmental specifications. Communities must use the financial statement format, including the account codes and names as outlined in the Financial Management Guide. 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 Financial Management Guide outlines how revenue and expenditures are budgeted and reported.
- Although Indigenous Relations communities are legally part of the department of Indigenous and Municipal Relations, departmental management and staff have no control over day to day community operations, record keeping and financial reporting. The department managers 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 Northern Affairs Community Council that is carried forward from one year into the next. For this purpose, debt includes unfulfilled obligations related to conditional funding received from the Province and others, bank overdrafts and future lease obligations. Per Indigenous and Municipal Relations 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 31st 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 on Appendix J in the Financial Management Guide. 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 on Appendix K in the Financial Management Guide. Revenue from Aboriginal & Northern Affairs for operating and maintenance must be shown as a separate line item from other grants. Locally generated revenue must be subtalled within the revenue section of the income statement.
- 3) Statement of Cash Flows – The format for the statement of cash flows is shown on Appendix L in the Financial Management Guide.
- 4) Statement of Change in Net Financial Assets – The format for the statement of change in net financial assets is shown on Appendix M in the Financial Management Guide.

Required Schedules

The following schedules are required as at March 31st:

- 1) Schedule of Expenses – A schedule must be prepared identifying total expenses by expense line item for example Wages, Training, Travel. A report guideline is shown on Appendix N in the Financial Management Guide.
- 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 on Appendix O in the Financial Management Guide.
- 3) Reserves – A reserves schedule must include totals for each reserve fund, for example Fire Truck, Waste Disposal Site, Water Breaks. It must also include the current year contribution amount, investment interest, and withdrawals. A report guideline is shown on Appendix P in the Financial Management Guide.
- 4) Capital Assets – A schedule must be prepared for all capital assets including cost, accumulated amortization, net book value and annual amortization.
- 5) Accounts Payable – An aged listing of all outstanding payables by vendor/supplier must be included.
- 6) 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 chairman of the meeting in which they were approved and by the administrator/clerk.

- Monthly Financial Statements need to be approved by council at the next month's council meeting.
- **Revenue**
 - Communities need to have an internal control system for recording and collecting all locally generated revenue.
 - Rates for all services provided should be approved by council resolution.
 - Receipts are pre-numbered using Simply Accounting.
- **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.
 - Each permanent employee should have a current job description.
 - All employees should 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 departmental approval.
 - All disbursements from maintenance/operating reserves require a resolution by council. Expenditures should relate to the purpose for which each particular reserve was established.
- **Cash**
 - Receipts must be deposited on a weekly basis if the amount exceeds \$200.00.
 - 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) Definitions

In this regulation,

“councilor” means a member of a community council other than the mayor, or a member of a local committee of a community other than the chairperson;

"mayor" means the mayor of a community or the chairperson of a local committee of a community.

2) Honorarium for Communities

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

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

3) Contact Person Honorarium

A person appointed as a contact person may receive an honorarium up to a maximum monthly amount of \$115 as per Indigenous and Municipal Relations policy F7.

4) Monthly Payments to a Maximum Amount

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

5) Per Diem and Expenses

If a member conducts business outside the community boundary, the per diem rate must not exceed \$120 and must be prorated if less than a day was spent.

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

APPENDIX C

REPORT DISTRIBUTION LIST

Paper copies:

1. ~ Community Council
2. Celia Lima
Municipal Audit & Tax Manager
Department of Indigenous and Municipal 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 & Tax Manager
Celia.Lima@gov.mb.ca

Northern Region

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

&

4. Beverly Shlachetka
Municipal Development Consultant
Beverly.Shlachetka@gov.mb.ca

or

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

or

Leah Garson
Municipal Development Consultant
Leah.Garson@gov.mb.ca

North Central Region

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

&

4. Crystal Dumas
Municipal Development Consultant
Crystal.Dumas@gov.mb.ca

or

Darrell McKenzie
Municipal Development Consultant
Darrell.McKenzie@gov.mb.ca

or

Robert Barbeau
Municipal Development Consultant
Robert.Barbeau@gov.mb.ca