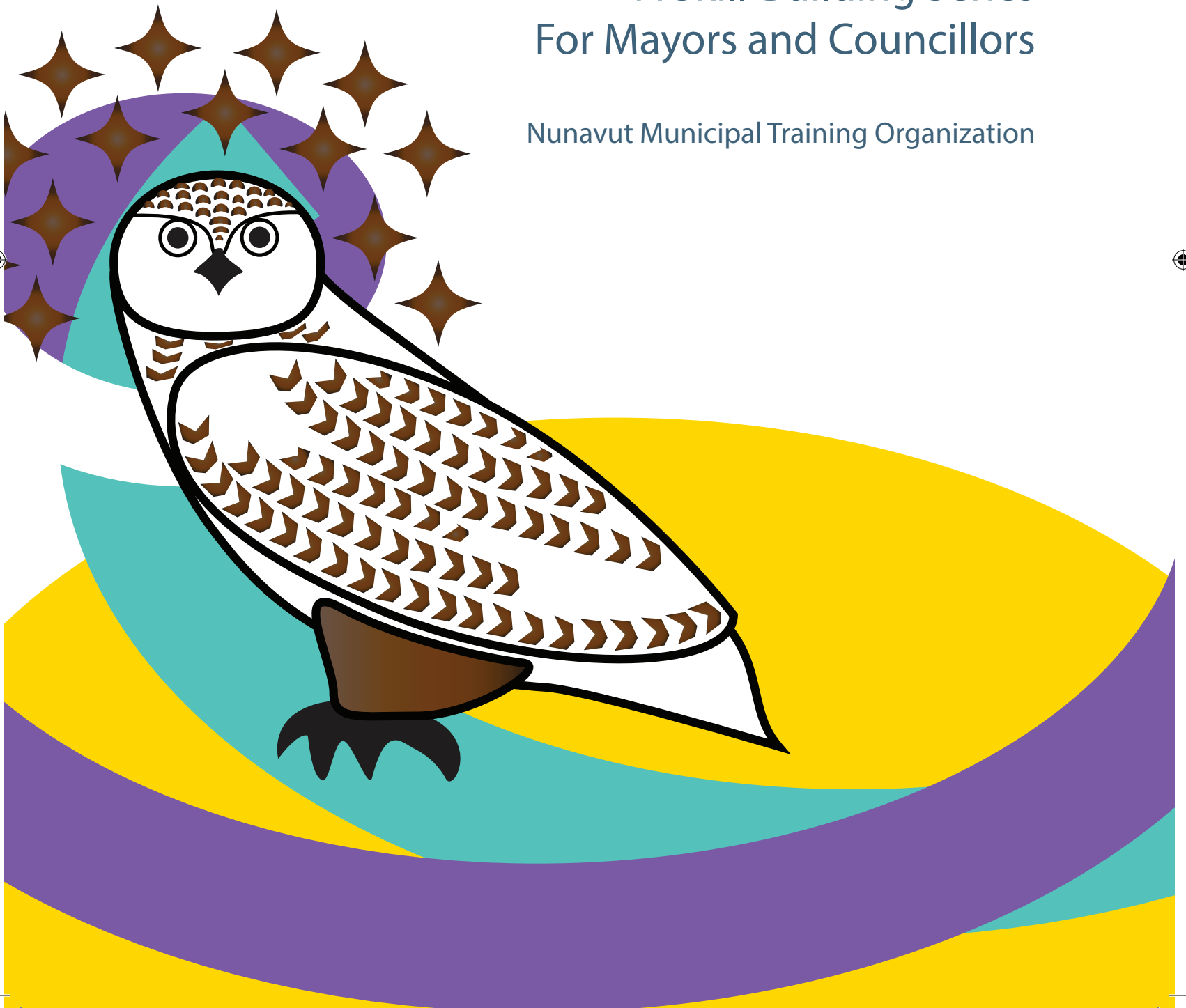


# FINANCIAL OVERSIGHT

## *Participant's Guide*

GOVERNANCE FUNDAMENTALS:  
A Skill-Building Series  
For Mayors and Councillors

Nunavut Municipal Training Organization



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## HOW TO USE THIS GUIDE

*Governance Fundamentals* is a series of courses developed by the Nunavut Municipal Training Organization (MTO) to help Nunavut Mayors and Councillors build their decision-making and oversight knowledge and skills.

This document, the *Financial Oversight Participant's Guide*, is one of several complementary learning resources on this important topic.

If you are learning in a group led by a facilitator, the learning resources include an instructional video, exercise handouts, and a list of on-line reference materials. The facilitator will provide you with the materials you need and will lead you through the course step-by-step.

If you are taking the course on your own, the main resources are the video, this guide, and supplementary online resources. If you have not already done so, the video, guide, and supplementary resources can be downloaded from the MTO website.

For self-paced learning, the video and Participant's Guide are meant to be used together:

- 1. Begin with the video.** It is divided into several short modules that parallel the organization of the Participant's Guide.

When a video module comes to an end, you will be prompted to pause the video and carry out some suggested tasks.

- 2. Perform the assigned tasks.** The tasks at the end of each module may include:
  - Browsing a chapter in the Participant's Guide
  - Thinking about how to deal with situations you may face on Council
  - Going online to check out a resource that may be helpful to you in the future
- 3. Resume the video.** Then, move on to the next video module. Continue the process described above until you have completed all of the modules.

If, after completing the course, you have unanswered questions, your fellow Councillors or municipal staff may have the answers you need – or know where to find them.

Of course, your ability to provide financial oversight will continue to grow as you carry out your day-to-day duties as a Mayor or Councillor. It won't be long before others are looking to YOU for advice!

### THANK YOU!

The MTO would like to acknowledge the generous assistance of the Northwest Territories Department of Municipal and Community Affairs, School of Community Government, in making the text of its *Financial Awareness Workshop Participant's Guide* available as a model and resource for this publication.



## INTRODUCTION

One of the most important roles that the Mayor and Council perform for their community is financial oversight.

What does that mean? A municipal government is responsible for providing its community with certain services. It uses public funds to pay for those services. In their oversight role, elected officials are jointly responsible for ensuring that their municipality's funds are well spent and that its financial affairs are managed properly.

Council establishes the priorities that guide the creation of the budget. During the year, Council uses the budget as a tool to compare actual results with the intended results. Council also plays a role in making sure that the municipality's financial information is prepared for the annual audit in accordance with generally accepted accounting standards.

The financial oversight responsibilities of Council are spelled out in two main pieces of legislation – the *Hamlets Act*, which applies to the Territory's 24 Hamlets, and the *Cities Towns and Villages Act*, which currently applies only to Iqaluit. The Sections of these two Acts that concern financial affairs are, in most respects, identical.

Throughout this document, excerpts from these *Acts* will be highlighted as specific duties, processes, and documents are discussed.

**NOTE: In this document, the word "municipality" is used to refer to Hamlets and the City of Iqaluit.**

## THE BUDGET

Each year, Council receives money from a number of sources to deliver programs and services within its community. The budget is the main tool used to guide the receipt and expenditure of those funds.

The budget should not be thought of as just an accounting exercise to balance revenues and expenditures. Rather, it provides an opportunity to look back on previous budgets and set goals and objectives for current and future budgets.

Is a budget necessary? The short answer is YES. The *Hamlets Act, Section 136*, requires Council to adopt, by resolution, a budget for each new fiscal year. The budget, which contains the estimated revenues and expenditures for the new fiscal year, must be in place before the new fiscal year begins.

**WHAT THE HAMLETS ACT SAYS:**

Fiscal year

**135.** The fiscal year for a municipal corporation is (a) the period commencing on April 1 and ending on March 31 in the following year; or (b) the calendar year if the municipal corporation is a municipal taxing authority.

Adoption of budget

**136.** (1) Every council shall, by resolution, before each fiscal year, adopt a budget for the fiscal year.

**WHAT THE CITIES TOWNS AND VILLAGES ACT SAYS:**

Fiscal year

**135.** The fiscal year for a municipal corporation is the calendar year.

Adoption of budget

**136.** (1) Every council shall, by resolution, before each fiscal year, adopt a budget for the fiscal year.



**What is a Budget?**

A budget is a detailed financial plan that outlines how the municipality is going to manage its money and people. To that end, the budget contains several important types of information:

- The community’s goals and priorities
- A financial plan that estimates the monies to be received and spent
- An operational guide that describes activities, services, and functions
- A planning guide that sets a framework for future financial activities

A carefully planned and prepared budget serves the municipality in the following ways:

1. It outlines the municipality’s priorities and ensure that the minimum required community services are provided and that stakeholder needs are addressed.

2. It prevents the misuse of public funds by providing a baseline to compare actual revenue and expenses to planned amounts to identify variances that need to be examined.
3. It assists in long term planning by allowing the municipality to build up or use surplus funds as required.
4. It helps Council to control the activities of its various sub-committees.
5. It provides municipal staff with direction regarding the financial decisions of the Mayor and Council and the expectations for service delivery.
6. It enables Council to evaluate management’s use of financial resources in delivering the Mayor and Council’s approved programs and to identify and correct problems before they become serious.

<p><b>WHAT THE HAMLETS ACT SAYS:</b> Content of budget (2) The budget must include estimates of (a) all expenditures to be incurred by the municipal corporation, including (i) payments in respect of debts, (ii) operating expenditures, (iii) capital expenditures, and (iv) grants; (b) all revenues to be received by the municipal corporation, including (i) charges for municipal services, and (ii) grants and contributions; and (c) any sum required to meet a deficit of the municipal corporation, if any, in the preceding fiscal year.</p>	<p><b>WHAT THE CITIES TOWNS AND VILLAGES ACT SAYS:</b> Content of budget (2) The budget must include estimates of (a) all expenditures to be incurred by the municipal corporation, including (i) payments in respect of debts, (ii) operating expenditures, (iii) capital expenditures, and (iv) grants; (b) all revenues to be received by the municipal corporation, including (i) charges for municipal services, (ii) property taxes, and (iii) grants and contributions; (c) all school taxes collected by the municipal corporation and forwarded under the <i>Property Assessment and Taxation Act</i>; and (d) any sum required to meet a deficit of the municipal corporation, if any, in the preceding fiscal year. S.Nu. 2010, c.7,s.2.</p>
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## Council's Role in Budgeting

Council members play an on-going role in the budget process, from the very beginning of the process of setting the priorities of the community to the final process of using the budget as a monitoring tool. The role includes:

- Setting the financial priorities for the municipality
- Communicating priorities to the Senior Administrative Officer / Chief Administrative Officer (SAO/CAO)
- Approving the budget
- Using the budget as a benchmark against which revenues and expenditures can be monitored throughout the year

At the beginning of the budget process, Council meets to set budget priorities. This is usually done as part of the capital planning process. A community government budget includes two parts, an *Operations budget* and a *capital budget*.

The approved budget shows where the municipality plans to use its resources in the upcoming year. To prepare a proper budget, it is important that all aspects of the community government's operations are considered. The omission of a key revenue or expenditure item from the budget could have a severe impact on the financial position of the community government and adversely affect its ability to provide essential services.

The SAO/CAO and municipal staff use the information from Council's priority list to prepare the budget. Once the budget has been prepared by staff, it is given to Council for review and approval. Once approved, the budget gives the SAO/CAO authority to spend the municipality's funds. It also becomes a tool for management and Council to monitor revenues and expenditures.

## The Budget Process

The budget process is not simply an exercise in balancing revenues and expenditures one year at a time. It is strategic in nature and includes multi-year planning that allocates resources based on goals and objectives. A good budget process moves beyond traditional line-item expenditure control.

### The Budget Process: Basic Principles

There are four basic principles of the budget process. Council must:

- 1. Establish broad goals and objectives to guide decision making**
  - a. Assess community needs, priorities, challenges, and opportunities
  - b. Identify opportunities and challenges for services, capital assets, and management
  - c. Develop and distribute goals and objectives
- 2. Develop approaches to achieve goals and objectives**
  - a. Adopt financial policies
  - b. Develop programs, services, and capital policies and plans
  - c. Develop programs and services consistent with policies and plans
  - d. Develop management strategies
- 3. Develop a budget consistent with approaches to achieve goals**
  - a. Develop a process for preparing and adopting a budget
  - b. Develop and evaluate financial options
  - c. Make choices necessary to adopt a budget
- 4. Monitor, evaluate performance and make adjustments**
  - a. Monitor, measure, and evaluate performance
  - b. Make adjustments as needed



## Operating Budget

The Operating Budget usually covers a 12-month period, and itemizes day-to-day expenditures of the organization for items such as:

- Payroll costs
- Utilities
- Office administration and supplies
- Building rent and leases
- Vehicle operation, maintenance, and repairs
- Capital infrastructure maintenance
- Contracted services and professional fees
- Travel
- Insurance
- Advertising
- Special events
- Other services required for the delivery of programs and services.

On the revenue side of the Operating Budget, revenue streams are likely to fall into the following categories:

- Government funding
- Property taxes (if applicable)
- Charges for services – water and sewer, transportation, etc.
- User fees – facility rental; equipment rental; house rental, tipping fees
- Contract services
- Investment income
- Grants and contributions
- Fundraising activities.

## Capital Plan and Budget

The *Capital Plan* is a multi-year financial plan for construction and purchase of capital assets such as municipal facilities, infrastructure, and

major equipment purchases. It provides for the planning of future financial resources required to meet capital requirements. It should also identify future financial resources to be allocated from the Operating Budget to operate and maintain capital assets once they are acquired. The Capital Plan is reviewed each year and may be revised as circumstances change.

Guided by the Capital Plan, the *Capital Budget* funds major equipment purchases and improvements to municipal facilities and infrastructure during the coming fiscal year.

It's essential that all municipal government facilities be inspected properly before the Capital Planning and Capital Budgeting processes begins. Detailed engineering reports can be used to identify areas where critical capital components may have to be replaced, when, and at what cost. The Capital Plan can then be revised accordingly and the Capital Budget for the coming year can be prepared. Having good information about the condition of all capital assets enables the municipality to plan for future needs by setting aside funds.

**For an example of a budget, see [Appendix 1: Municipal Budget](#).**

## Variance Reports

Regular monitoring of the budget against actual results – usually conducted each month – provides early warning of potential problems. This comparison of the budget with actual revenues and expenditures is called a **variance report**.

### Why Are Variance Reports Important?

Detecting differences between budgeted and actual revenues and expenditures as early as possible gives Council and the administration



time to consider actions that may be needed to avoid major budget overruns.

A variance report is prepared by the SAO/CAO and his/her staff. It outlines expenses for the current month or quarter and for the year to date and compares them with the budget. The SAO/CAO usually provides a supplemental report on any large variances. For example, Council may have a policy that the SAO/CAO must highlight and report on any variances greater than \$5,000.

Some common reasons for variances are:

- Fuel and electricity price changes
- Unexpected repair bills
- Lower revenues than expected for a community event
- Changes in wage rates
- Interest rate changes
- Changes in the types and quality of services provided
- Changes in funding agreements

Variance explanations help in providing information to Council members on what actions either occurred or did not occur and why. As budgets are prepared well in advance of the fiscal year, one can expect that variances will occur. Adjustments will be needed to manage the budget and keep the “bottom line” within the allowable expenditure total.

In addition to financial information, the municipal government should monitor and be aware of external factors outside its control that may affect actual results and cause deviations from the budget. In addition to items listed above, changes in government legislation and/or funding policies after the budget is approved can have a significant impact on the municipality’s finances and may require a revision to the annual budget.

**Variance Analysis - Questions to Ask**

1. What are our actual expenditures?
2. What is our year-end prediction?
3. What is the difference?
4. Why are there differences between planned and actual expenditures?
5. What are the long-term implications?
6. What are our budgeted and actual revenues?
7. If revenues are above or below those in the budget, why?
8. What can be done to adjust revenues?

The safe way to plan for the possibility of variances is to play it safe; be conservative in your estimates, so you aren’t caught with a nasty surprise partway through the year.

**Appendix 2: Variance Report shows how variances are identified.**

**Budget Control**

When putting together the budget estimates, Council is planning the level of services and expenditures for the current year. Budget control is important in keeping revenues and expenditures in line. The budget should be monitored, at least monthly, through the approval of monthly financial statements. Depending on what is reported in the statements, the budget may have to be adjusted. If items go over budget, the budget may have to be adjusted and approved by resolution of Council.





**WHAT THE HAMLETS ACT AND CITIES TOWNS AND VILLAGES ACT SAY:**

Expenditure control

**139.** (1) No person shall incur an expenditure on behalf of the municipal corporation that is not included in or is inconsistent with the budget for the fiscal year.

Exception

(2) Despite subsection (1), where  
 (a) a council has not yet adopted a budget, or  
 (b) an expenditure is not included or is inconsistent with the budget, a person may incur an expenditure on behalf of the municipal corporation, if the expenditure  
 (c) is one that the municipal corporation is legally obligated to incur, or  
 (d) is authorized by the council by resolution. S.Nu. 2012,c.17,s.5(9).

Ultimately, budget control is about ensuring that the budget balances. This means that all the revenues received should equal all of the expenditures made. The objective is to avoid both budget deficits (expenditures exceed revenues) and budget surpluses (revenues exceed expenditures) because both may indicate poor financial management. Clearly, the more serious of the two is a budget deficit.

**Deficits**

There are two main reasons why municipalities go into deficit.

1. **Unexpected expenditures:** e.g., your computer server unexpectedly breaks down and must be replaced.
2. **Poor financial management:** there is a lack of financial controls and financial monitoring in place. Strong financial controls are the best guarantee that items don't go over budget.



**HOW TO PREVENT DEFICITS**

**Review revenue sources** – revenue sources should be reviewed to ensure charges for services are current. Maybe fees and rates for municipal services haven't been increased in a long time. If current fees and rates do not cover the costs of operations, they may need to be increased.

**Review expenditures** – as improvements are made to make operations more efficient, there may be opportunities to lower expenditures in these areas. Look for ways to reduce expenditures while maintaining an appropriate level of service to residents.

**Keep up to date financial Statements** – it is imperative that financial statements be up to date and accurate. A municipality that is two or three months behind in issuing its financial statements may run into deficit and it will be several months before it is noticed. The municipality is left scrambling for ways to reduce the deficit, and it may be too late. Accurate and up to date financial information is necessary in order to prevent deficits.

**Carry out budget reviews** – periodic budget review is necessary to monitor expenditure levels and to catch deficits before they occur. Budgets should be reviewed monthly for variances and measures should be taken to correct items that are over budget.



To get out of deficit, a Deficit Recovery Plan must be formulated with the following considerations:

- **Time frame** – How long is recovery going to take?
- **Capacity** – Ability of the community to maintain acceptable levels of service and operation while reducing expenditures.
- **Implementation** – Expedient development and implementation. The problem is immediate. Get the plan developed, approved, and in place as soon as possible.
- **Monitoring** – Consistent and diligent monitoring is crucial.

Any deficit must be eliminated by the end of the next fiscal year. Any plan to eliminate a deficit for a period longer than 12 months requires approval of the Minister.

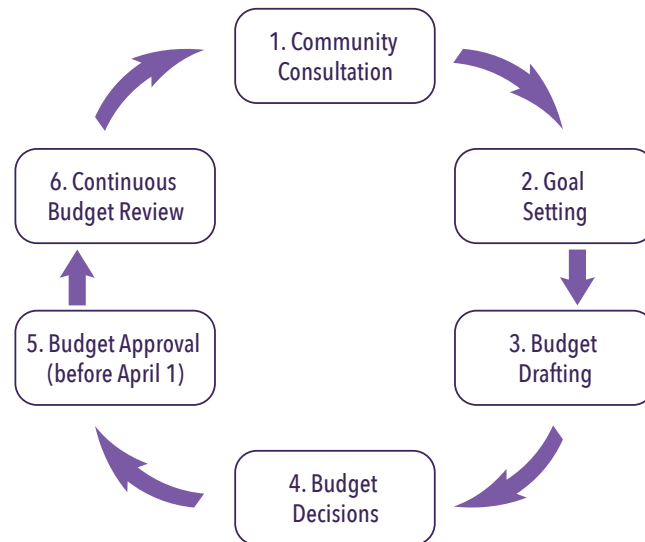
**Budget Calendar**

Generally, budgets are developed over a four-to-five-month period in advance of the fiscal year to be covered by the budget. This provides time for input from stakeholders and time to review a draft budget.

A budget calendar is a helpful tool in keeping the budget process on track. Typically, a budget calendar will set dates for:

- Community consultation
- Setting goals and objectives for the municipality
- Drafting a budget based on goals and objectives
- Reviewing and making budget decisions
- Approval of budget (prior to the new fiscal year, which begins on April 1)
- Review of the budget (quarterly or semi-annually at minimum)

It takes a team effort from Council and the SAO/CAO to ensure that budget calendar deadlines are met. Stick to the calendar that you set, and the



budget process will flow more smoothly.

**Grants, Contributions, and Contracts**

The Government of Nunavut (GN) administers its voted transfer payments to community governments as grants and contributions.

**A grant** is an unconditional transfer of appropriated funds to a community government for which the recipient is, with the exception of meeting the eligibility criteria for the grant, not accountable to the government.

**A contribution** is a conditional transfer of appropriated funds to a community government for which the recipient is accountable to the government or other entity for the use of the funds and fulfillment of the objectives for which the funding is provided.

**A contract** is an agreement between



a municipality and a service provider to deliver additional services to the community. Although many contracts are with Government of Nunavut departments, opportunities to obtain funding from the Federal Government, designated Inuit organizations, and other parties may also be available.

Council and staff should have a clear understanding of the terms and conditions of a contract or contribution agreement before making a decision to accept or reject it. Many contracts require full financial reporting where revenue received must match expenditures. Council and staff should be aware of the financial implications of all contracts before entering into them.

## Questions Councillors Should Ask

In reviewing the budget, Councils need to be satisfied that, by spending the funds as outlined in the budget, the level and type of services provided is what the Council wants to provide. Four conditions need to be satisfied:

1. Legal requirements are met
2. The revenue budget can be achieved
3. The expenditure budget covers all the required areas
4. The revenues and expenditures balance

The second condition – that the revenue budget can be achieved – may lead to the following kinds of questions from Council:

- What changes have taken place from last year that would make the revenue numbers different from the prior year's budget or from the prior year's actual revenue as reported on the financial statements?
- Will these changes affect this year?
- What are the assumptions for the revenue numbers (i.e., number of times there will be

bingos, the number of program participants, the number of special events in the facilities, the interest rates), and are these assumptions realistic?

- What can Council do differently to change the amount or type of revenue it has (write more funding proposals, contract for services, look at ways to use the facilities for more revenue paying items, change user fees)?
- Are these revenue estimates reasonable and attainable?
- Is Council over-estimating revenues – which could result in financial difficulties for Council?
- Based on the estimates and the assumptions, is the revenue trend-line reasonable compared to prior years; is the revenue increasing or decreasing?
- Have the variances (difference between budgeted amounts and expenditures) from the prior year been addressed in this current year's budget process?

The third condition – that expenditures cover all of the required areas – may lead to the following kinds of questions:

- Is Council allocating sufficient funds to meet the mandate that is required of it by Legislation and the terms of Grants, Contracts, and Contribution Agreements?
- Did Council consult stakeholders in preparing the budget; did Council take into consideration the recommendations of municipal staff in approving the budget?
- Has Council estimate costs accurately in the areas where there are common mistakes (e.g., benefit costs for salary, contract services, equipment replacement)?
- Are the amounts assigned to activities and projects reasonable and sufficient to deliver the programs appropriately?



- Has Council been provided with breakdowns of amounts of key items to see how they were figured out?
- Has Council addressed variances from the prior year and adjusted the budget to deal with the issues?
- Is the budget realistic or is Council playing with numbers so that the budget is balanced?
- Does the municipality have sufficient cash flow to meet the expense plan?
- Are the expenses less than the revenues; if not, are there sufficient reserves to meet the expenditure plan?
- Have changes in prices been taken into account (e.g., fuel increases, pharmaceuticals, collective agreements and increased statutory holidays)?
- Have changes in volume or levels of service been taken into account (e.g., Socio-economic impacts on communities resulting in staffing increases)?



### THE BUDGET: SELF-TEST

1. When does the fiscal year begin and end for Nunavut municipalities?  
✓ To review, see [page 2](#).
2. What kinds of information are included in a budget?  
✓ To review, see [page 3](#).
3. What is Council's role in budgeting? Are Council members expected to prepare the budget document?  
✓ To review, see [page 4](#).
4. What is the purpose of the Operating Budget? The Capital Plan and Budget?  
✓ To review, see [page 5](#).
5. What is a variance?  
✓ To review, see [page 5](#).
6. What are some common reasons for differences between budgeted and actual revenues and expenditures?  
✓ To review, see [page 6](#).
7. What kinds of questions should be asked about variances?  
✓ To review, see [page 6](#).
8. What is a deficit and what must Council do in the case of a budget deficit?  
✓ To review, see [pages 7 and 8](#).
9. When is the budget for a new fiscal year prepared?  
✓ To review, see [page 8](#).
10. What are the differences between grants, contributions, and contracts as revenue sources?  
✓ To review, see [pages 8 and 9](#).



**Internet References**

For more information on budgeting, check out these resources.

**Financial Administration Manual**

An excellent resource if you want to fully understand Nunavut Government expectations for financial administration is the Nunavut Financial Administration Manual. It is available online at <https://www.gov.nu.ca/finance/information/financial-administration-manual>

**Hamlets Act**

The *Hamlets Act* gives comprehensive direction to the Territory's 24 Hamlets on how they are expected to conduct their affairs. Part IV of the Act – Sections 135 to 170 – deal specifically with financial management. Use this link to download the Act in PDF format.

[file:///E:/Downloads/635423168201875000-314879935-consrsnwt1988ch-1%20\(4\).pdf](file:///E:/Downloads/635423168201875000-314879935-consrsnwt1988ch-1%20(4).pdf)

**Cities, Towns and Villages Act**

Like the *Hamlets Act*, the *Cities, Towns and Villages Act* lays out requirements, procedures, and legal responsibilities for the conduct of municipal affairs in communities designated as cities, towns or villages (currently only Iqaluit). The Act is available in PDF format at this address:

[file:///E:/Downloads/635302392195156250-2143437484-consrsnwt1988cc-8%20\(1\).pdf](file:///E:/Downloads/635302392195156250-2143437484-consrsnwt1988cc-8%20(1).pdf)

**FINANCIAL STATEMENTS**

Another key financial oversight activity is the approval of the municipality's annual financial statements. To do that, Councillors must understand the accounting standard that is used in the preparation of the financial statements.

**PSAB Accounting Standards**

In Canada, Public Sector Accounting Board (PSAB) Standards are mandated for use by all municipalities and First Nations across the country.

The PSAB accounting standard is designed to meet the common information needs of external users of financial information about a government. The financial statements provide stakeholders with information regarding sources of revenue, the delivery of programs, and the vitality of the community government.

According to PSAB, a municipality's financial statements should:

- Provide an accounting of the full nature of the municipality's financial affairs
- Present information to describe the municipality's financial position
- Present information to describe changes in a municipality's financial position
- Demonstrate the accountability of the municipality for its resources, obligations, and financial affairs

PSAB documentation includes guidelines for presenting financial statements and advice on how to report a wide variety of transactions.

**The Four Main Statements**

Municipalities use many different kinds of financial statements to monitor their financial affairs. The four main statements that all municipalities prepare are:

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Fund Balances (Net Assets/Debt)
- Statement of Cash Flows



## Statement of Financial Position

For an example, see [Appendix 3: Statement of Financial Position](#)

The main job of the *Statement of Financial Position* is to ensure that all assets and liabilities of the municipal government are recorded and reported. This statement shows the assets, liabilities, and surplus/deficit at a specific point in time. Reporting all assets and liabilities on this statement ensures that information is presented about the organization's future revenue needs, and its ability to finance its activities and meet its obligations.

Assets are items that are controlled by the community government as the result of a past transaction or event and have a future benefit. On public sector financial statements, assets are divided into two types – financial and non-financial. *Financial assets* are used in the day-to-day activities of the community government such as cash and accounts receivable. Non-financial assets are used for the long term benefit of the community government.

The most significant type of asset in the non-financial asset group is the tangible capital asset. Tangible capital assets have a future benefit and are used to provide the services of the community government. Examples of tangible capital assets include fire trucks, roads, water treatment plants, and utilidor systems.

Liabilities are obligations of the community government. They include items such as accounts payable, wages payable, and deferred revenue. In a community government, deferred revenue is often one of its largest liabilities. Also known as unearned revenue, it refers to advance payments that the municipality receives from the Government of Nunavut or other sources for

services that are to be delivered or performed in the future. Until the money is actually spent for its intended purpose, it is treated as deferred revenue, a liability, on the municipality's balance sheet.

The accumulated surplus is the difference between the assets and the liabilities. It represents the net worth of the community government.

One important concept on the statement of financial position is called the net assets/debt. Net assets/debt represents the municipality's financial assets less its liabilities. If the community has a net asset position, it means that there are enough resources for future operations. If the community has a net deficit position, it means that there is a shortfall and the Council and administration have to work together to get the community government into a better financial position.

## Statement of Operations

For an example, see [Appendix 4: Statement of Operations](#)

The *Statement of Operations* – sometimes referred to as the *Statement of Revenue and Expenditures* – reports all revenues and expenses for the community government for the entire year. The end result is called the current year or operating surplus/deficit. The approved budget appears in a column next to actual revenues and expenses so that they can be compared.

Reporting all revenues and expenditures ensures that information is presented about the municipality's sources, allocations, and uses of financial resources. It also provides Council with an indication as to whether resources were sufficient to meet expenditures. Revenues should be accounted for in the period transactions or events occurred that gave rise to them. Accounting for the revenues at this time ensures



that the related financial assets are accounted for in the period they are created.

## Statement of Changes in Fund Balances (Net Assets/Debt)

For an example, see [Appendix 5: Statement of Changes in Fund Balances](#)

The overall objective of the *Statement of Changes in Fund Balances* is to ensure that information about the organization's current, capital, and reserve fund transactions and balances is presented. It also shows activity in any other funds that have been created. If additional funds have been approved, these funds and the transfer into and out of the funds must be reported in the financial statements.

Reporting information about fund balances helps users assess the organization's short-term revenue requirements. Reporting information about changes to those balances is also useful in understanding decisions made about the allocation of resources to meet current expenditures, capital expenditures, or amounts that have been set aside in reserve.

## Statement of Cash Flows

For an example, see [Appendix 6: Statement of Cash Flows](#)

The *Statement of Cash Flows* shows the municipality's opening and closing cash position and shows where cash was spent during the year. This statement reports the effects of the municipality's activities on its cash resources, showing how the municipality financed its activities and met its cash requirements. This statement is an important measure of the municipality's *liquidity*, the ease with which assets can be converted into ready cash to meet the municipality's obligations. The statement of cash flows is an overview of changes in cash and cash equivalents for the municipality as a whole.

The four financial statements identified above must be prepared in accordance with the guidelines issued by Community and Government Services and submitted not later than 120 days after the end of the fiscal year.



## FINANCIAL STATEMENTS: SELF-TEST

1. What accounting standard is used by Nunavut municipalities?  
✓ To review, see [page 11](#).
2. What is the purpose of the Statement of Financial Position?  
✓ To review, see [page 12](#).
3. What report will provide you with a means to compare your municipality's actual revenues and expenses with revenues and expenses planned for in the budget?  
✓ To review, see [page 12](#).
4. If you want to know the current balances of your municipality's current, capital, and reserve funds, what report would you consult?  
✓ To review, see [page 13](#).
5. Which of the statements provides a good measure of a municipality's liquidity?  
✓ To review, see [page 13](#).



**Internet References**

More information related to financial statements, consult these resources:

**Public Service Accounting Board (PSAB)**

The PSAB website describes the organization's purpose, activities, and services to public sector organizations.

<https://www.frascanada.ca/en/psab>

**The Hamlet's Act**

Section 144 of the *Hamlet's Act* identifies requirements for the preparation of a community's financial statements. Use this link to download the Act in PDF format.

[file:///E:/Downloads/635423168201875000-314879935-consrsnwt1988ch-1%20\(4\).pdf](file:///E:/Downloads/635423168201875000-314879935-consrsnwt1988ch-1%20(4).pdf)

**THE ANNUAL AUDIT**

The final piece in the 12-month cycle of financial oversight is the annual audit.

The auditor is responsible for reporting whether the financial statements prepared by management and approved by Council present fairly:

- the financial position of the municipal government
- the results of its financial activities
- changes in its financial position for the year in accordance with generally accepted accounting principles.

The auditor attaches a signed report to the financial statements together with a *Management Letter*. The Management Letter reports any significant weaknesses in internal control that the auditor has identified. In addition, the auditor may report on certain specific items requested by the administration or Council. The management

letter is a tool for Council and the administration to improve on their practices.

See *Appendix 7* for an example of the *Preamble to an Audit Report*.

See *Appendix 8* for an example of a *Management Letter*.

It is important that the audit is done in a timely manner. For a March year end, most audits are carried out, completed, and delivered by May or June of the new fiscal year. Once the audit has been completed, Council members normally meet with the auditor to discuss the findings and have the financial statements approved.

**Communication with the Auditors**

Under Canadian Audit Standards, auditors are required to communicate with Council members at various points in the audit process. In municipalities with strong governance practices, this is done in the form of a meeting with the auditor before and after the audit. In some communities, the auditor may meet with Council as a whole. If the municipality has a Finance Committee or an Audit Committee, the auditor may meet with the Committee rather than with the full council.

The auditors will communicate with Council regarding:

- Matters arising from the audit
- Significant findings
- Any misstatements
- Qualitative aspects of accounting principles such as estimates, disclosures, alternative policies, etc.
- Other matters





Auditors are required to report to Council or the audit committee regarding:

- Significant weakness in internal control
- Possible fraud
- Illegal acts
- Misstatements resulting from error
- Other information in financial reports
- Management's consultation with other accountants
- Discussions with management
- Serious difficulties encountered
- Disagreements with management

**Council Approval of the Audit**

As part of the financial oversight process, Council must approve the audited statements. The date of approval becomes the date of the

audit report. It is important that Council members understand that the auditor is not responsible for the preparation of the municipality's financial statements. The SAO/CAO and other municipal staff members have that responsibility. The Auditor is responsible to provide an audit opinion on the financial statements.

It is important to read and understand the audit report, especially the audit opinion. The audit opinion will tell if the auditor has concluded whether the financial statements are free from material misstatement. An *Opinion Without Reservation* indicates that the financial statements have been presented fairly.

If the auditor finds fault with some aspect of the financial statements, a modified opinion may be presented. As indicated in the chart below, there are three types of modified opinion.

Type of Modified Opinion	Reported when the Auditor is of the opinion that:
<b>Qualified Opinion</b>	Statements are presented fairly, except: <ul style="list-style-type: none"> <li>• Appropriate accounting principles have not been followed in one or more aspects of the statements, or</li> <li>• The auditor is unable to obtain sufficient information to determine if the financial statements are fairly stated, but the effect of the above does not render the statements misleading or useless.</li> </ul>
<b>Denial of Opinion</b>	Because of lack of information, it's not possible to determine if the financial statements are fairly presented.
<b>Adverse Opinion</b>	The financial statements are not in accordance with appropriate accounting principles, and the statements are misleading or virtually useless.



Council and the administration should work toward receiving an **unqualified audit opinion**.

If the result is a qualified audit opinion, the two most common causes are: lack of appropriate accounting procedures for contract revenues and expenditures; and lack of timely reconciliation of general ledger accounts. The auditors normally provide a detailed account of the reasons for their opinion in the management letter, which will provide Council with a clear understanding of what needs to be done in the coming year to correct the problems.

If the audit's result is a qualified opinion, denial of opinion, or adverse opinion, Council must work with the SAO/CAO – and, if necessary, with outside advisors – to develop and implement an Action Plan to correct the problems that have been identified. This process should begin as soon as possible after a modified opinion is received. After directing the SAO/CAO to implement corrective measures specified in the Action Plan, it is good practice for Council to review progress in making the corrections at regular intervals until Councillors are satisfied that the issues have been resolved.

### ***Fraud Responsibility***

Misstatement in the financial statements can happen due to either fraud or error. Fraud may result from a fraudulent financial report or the misappropriation of assets.

Management and Council are responsible for the prevention and detection of fraud. It is important that management, with the assistance of Council, place a strong emphasis on fraud prevention. This is done by ensuring that there are proper policies and procedures in place to prevent and detect fraud. There also must be a strong commitment to creating a culture of honesty. This tone must be established by the top group – Council itself. This

is often referred to as “tone from the top”. It is important that Council members are aware of this responsibility.

The auditor obtains audit information based on a risk assessment and sampling. There is a risk that any errors or fraud may go undetected by the auditor. However, the auditor does maintain a professional skepticism and will consider any potential override of controls by management and staff.

The auditor will ask both management and Council members about their understanding of the process in place within the community government to identify fraud.

If the auditor thinks that a fraud has occurred, there are different audit procedures that they will do to ensure that the identified misstatements are not an error and are a suspected fraud. There are also procedures in place as to who should be notified if there is a fraud. Depending on what has been detected, the auditor may request a special meeting with the Council with or without management.

### ***Ten Questions to Ask the SAO/CAO Before the Audit Begins:***

1. Have all the transactions for the fiscal year been entered into the account system and been reviewed by the SAO/CAO?
2. Has the SAO/CAO met with the auditor and discussed any changes to the financial statements? (There are usually accounting standard changes each year that will impact the financial statements)
3. Has the engagement letter and bank confirmation been signed and sent to the auditor?
4. Have all the working papers requested by the auditor been prepared?



5. Have the minutes of all meetings been organized and signed?
6. Have the bank accounts and the investment accounts been reconciled to the year-end date and agreed to the bank balances?
7. Have the accounts receivable listing been reviewed, and any doubtful accounts have been recorded in the accounting system?
8. Has the tangible asset continuity schedule been updated, and the amortization recorded for the year?
9. Have all the liabilities been recorded for the year including wages payable, WSCC payable, Nunavut payroll tax payable, deferred revenue?
10. Have all the revenue and expense accounts been reviewed and allocated to the proper account?



### ANNUAL AUDIT: SELF-TEST

1. What is the purpose of the auditors' Management Letter?  
✓ To review, see [page 14](#).
2. When is it appropriate for Council to meet with the auditors?  
✓ To review, see [page 14](#).
3. What does it mean if the auditor presents Council with a "modified opinion" of the municipality's financial statements?  
✓ To review, see [page 15](#).
4. Who is responsible for the prevention and detection of fraud in the management and reporting of a municipality's financial affairs? What are some good strategies for preventing fraud?  
✓ To review, see [pages 16](#).

### Internet Reference

For more information on auditing, check out this link:

#### Chartered Professional Accountants Canada (CPA)

The CPA website provides a wealth of information on audit standards, auditing, and general accounting practices.

<https://www.cpacanada.ca/en>



## CONCLUSION

Council members are responsible for the financial oversight of the community government. It is important that Council members are engaged in the budget and financial process. A good governance process over the financial aspects of the community government will ensure a healthy community government for the future.

For more information on financial oversight, consider consulting these resources:

### Accounting

**Canadian Institute of Chartered Accountants**

<https://www.cpacanada.ca/en>

### Municipal Government

**Government of Nunavut: Community and Government Services**

<https://www.gov.nu.ca/community-and-government-services>

### Government of Canada

**Treasury Board of Canada Secretariat**  
<https://www.canada.ca/en/treasury-board-secretariat.html>

**Indigenous Services Canada**

<https://www.canada.ca/en/indigenous-services-canada.html>



**APPENDICES**  
*Appendix 1: Municipal Budget*

2019/20 Annual Budget													
	April	May	June	July	August	September	October	November	December	January	February	March	Total
<b>Revenues</b>													
Operating Contribution	170,044	170,044	170,044	170,044	170,044	170,044	170,044	170,044	170,044	170,044	170,044	170,044	2,040,528
Water and Sewage Services	434,657	434,657	434,657	434,657	434,657	434,657	434,657	434,657	434,657	434,657	434,657	434,657	5,215,884
Land Development & Administration	40,227	40,227	40,227	40,227	40,227	40,227	40,227	40,227	40,227	40,227	40,227	40,227	482,724
Other Revenue	154,803	154,803	154,803	154,803	154,803	154,803	154,803	154,803	154,803	154,803	154,803	154,803	1,857,636
Recreation	19,925	19,925	19,925	19,925	19,925	19,925	19,925	19,925	19,925	19,925	19,925	19,925	239,100
Contract Services	33,475	33,475	33,475	33,475	33,475	33,475	33,475	33,475	33,475	33,475	33,475	33,475	401,700
<i>Community Liaison Officer</i>													0
<i>Business Counselling &amp; Support</i>													0
<i>Income Support</i>													0
<i>Housing Services</i>													0
<i>Community Maintenance Agreement</i>													0
Community Transfer Initiatives	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Revenues</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>853,131</b>	<b>10,237,572</b>
<b>Expenditures</b>													
Water and Sewer Services	433,072	433,072	433,072	433,072	433,072	433,072	433,072	433,072	433,072	433,072	433,072	433,072	5,196,864
Land Development & Administration	30,415	30,415	30,415	30,415	30,415	30,415	30,415	30,415	30,415	30,415	30,415	30,415	364,980
General Government Services	163,024	163,024	163,024	163,024	163,024	163,024	163,024	163,024	163,024	163,024	163,024	163,024	1,956,288
Protective Services	30,249	30,249	30,249	30,249	30,249	30,249	30,249	30,249	30,249	30,249	30,249	30,249	362,988
Transportation & Public Works Services	33,372	33,372	33,372	33,372	33,372	33,372	33,372	33,372	33,372	33,372	33,372	33,372	400,464
Environmental Health Services	26,030	26,030	26,030	26,030	26,030	26,030	26,030	26,030	26,030	26,030	26,030	26,030	312,360
Recreation Services	61,742	61,742	61,742	61,742	61,742	61,742	61,742	61,742	61,742	61,742	61,742	61,742	740,904
Contract Services	45,183	45,183	45,183	45,183	45,183	45,183	45,183	45,183	45,183	45,183	45,183	45,183	542,196
<i>Community Liaison Officer</i>													0
<i>Business Counselling &amp; Support</i>													0
<i>Income Support</i>													0
<i>Public Housing</i>													0
<i>Community Maintenance Agreement</i>													0
Community Transfer Initiatives	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Operating Expenditures</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>823,087</b>	<b>9,877,044</b>
<b>Surplus (Deficit)</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>30,044</b>	<b>360,528</b>



Appendix 2: Variance Report

2019/20 Statement of Revenues & Expenditures

Revenues	YTD Budget	YTD Actual	YTD Variance
Operating Contribution	170,044	173,056	3,012
Water and Sewage Services	434,657	436,092	1,435
Land Development & Administration	40,227	135,598	95,371
Other Revenue	154,803	177,516	22,713
Recreation	19,925	(1,645)	(21,570)
Contract Services	33,475	385,651	352,176
Community Transfer Initiatives	0	0	0
<b>Total Revenues</b>	<b>853,131</b>	<b>1,306,268</b>	<b>453,137</b>
<b>Expenditures</b>			
Water and Sewer Services	433,072	317,392	(115,680)
Land Development & Administration	30,415	15,320	(15,095)
General Government Services	163,024	160,806	(2,218)
Protective Services	30,249	70,854	40,605
Transportation & Public Works Services	33,372	14,174	(19,198)
Environmental Health Services	26,030	14,465	(11,565)
Recreation Services	61,742	83,018	21,276
Contract Services	45,183	308,580	263,397
Community Transfer Initiatives	0	0	0
<b>Total Operating Expenditures</b>	<b>823,087</b>	<b>321,659</b>	<b>291,615</b>
<b>Surplus (Deficit) before Others</b>	30,044	30,044	30,044
	0	0	0
(Depreciation)	0	(142,358)	(142,358)
Gain/(Loss) on Disposal of Assets	0	0	0
			(142,358)
<b>Surplus (Deficit) after Others</b>	<b>30,044</b>	<b>179,301</b>	<b>149,257</b>



Appendix 3: Statement of Financial Position

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
AS AT MARCH 31, 2019

	<u>2019</u>	<u>2018</u>
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 1,922,880	\$ 1,875,835
Reserve deposits	2,103,162	824,542
Accounts receivable	790,740	912,880
Land under development		37,822
<b>Total Financial Assets</b>	<u>4,987,277</u>	<u>3,651,079</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	564,404	505,342
Wages and benefits payable	105,350	111,706
Deferred revenue	248,444	-
Capital lease obligation	386,922	464,700
<b>Total Liabilities</b>	<u>1,305,120</u>	<u>1,081,748</u>
<b>Net Financial Assets</b>	<u>3,682,157</u>	<u>2,569,331</u>
<b>Non-Financial Assets</b>		
Prepaid expenses	28,995	20,033
Consumable inventory	96,004	60,788
Tangible capital assets (Schedule 15)	6,699,310	6,752,266
<b>Total Non-Financial Assets</b>	<u>6,824,309</u>	<u>6,833,087</u>
<b>Accumulated Surplus</b> (Schedule 1)	<u>\$10,506,466</u>	<u>\$ 9,402,418</u>
<b>Commitments and Contingencies</b>		

Approved on behalf of the Municipality:

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Senior Administrative Officer



Appendix 4: Statement of Operations

**CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS**

FOR THE YEAR ENDED MARCH 31, 2019

	Budget 2019 (Unaudited)	Actual 2019	Actual 2018
<b>Revenues</b>			
Operating contribution	\$ 1,427,428	\$ 1,383,069	\$ 1,358,986
Water and sewage services (Schedule 2)	2,034,167	1,848,463	1,765,890
Land development and administration (Schedule 3)	177,692	137,162	62,087
Other revenues (Schedule 4)	418,832	736,085	448,917
Recreation revenues (Schedule 4)	223,000	314,118	170,753
Contract services (Schedule 10)	991,572	1,051,939	1,105,749
Municipal Liaison Officer (Schedule 11)	-	55,200	55,200
Community capacity building (Schedule 12)	190,000	120,358	114,495
	<u>5,462,691</u>	<u>5,646,394</u>	<u>5,082,077</u>
<b>Expenditures</b>			
Water and sewage services (Schedule 2)	1,576,790	1,544,278	1,574,445
Land development and administration (Schedule 3)	47,879	60,126	61,080
General government services (Schedule 5)	615,378	496,603	573,976
Protective services (Schedule 6)	158,186	115,359	103,387
Transportation and public works services (Schedule 7)	292,791	277,050	166,896
Environmental health services (Schedule 8)	116,390	82,891	70,960
Recreation services (Schedule 9)	495,768	583,304	541,847
Contract services (Schedule 10)	960,485	1,093,197	1,252,060
Municipal Liaison Officer (Schedule 11)	-	24,385	27,296
Community capacity building (Schedule 12)	190,000	120,358	114,495
	<u>4,453,667</u>	<u>4,397,551</u>	<u>4,486,442</u>
Depreciation (Schedule 15)	565,095	544,992	581,957
	<u>5,018,762</u>	<u>4,942,543</u>	<u>5,068,399</u>
<b>Excess of Revenues over Expenditures before Other</b>	<u>443,929</u>	<u>703,851</u>	<u>13,678</u>
<b>Other</b>			
Government transfers relating to capital (Schedule 14)	-	400,197	-
<b>Excess of Revenues over Expenditures</b>	<u>443,929</u>	<u>1,104,048</u>	<u>13,678</u>
<b>Accumulated Surplus, opening</b>	<u>9,402,418</u>	<u>9,402,418</u>	<u>9,388,740</u>
<b>Accumulated Surplus, closing</b>	<u>\$ 9,846,347</u>	<u>\$ 10,506,466</u>	<u>\$ 9,402,418</u>





*Appendix 5: Statement of Changes in Fund Balances*

**Statement of Changes in Fund Balances  
For the Period Ended June 30, 2020  
Unaudited**

	<b>Fund Balances</b>
<b>General Operating Fund (Fund 01)</b>	
Opening Balance - General Operating	3,636,591.31
Excess Revenue (Expenditures) to Date	2,499,600.93
Closing Balance (To Statement I)	6,136,192.24
<b>Water Sewer Fund (Fund 02)</b>	
Opening Balance	407,123.44
Excess Revenue (Expenditures) to Date	53,573.68
Closing Balance (To Statement I)	460,697.12
<b>Land Development Fund (Fund 03)</b>	
Opening Balance	853,784.24
Excess Revenue (Expenditures) to Date	4,013.77
Closing Balance (To Statement I)	857,798.01
<b>Quarry Development Fund (Fund 04)</b>	
Closing Balance (To Statement I)	-
<b>Capital Fund (Fund 05)</b>	
Prior year adjustment to Capital Fund	34,999,545.67
Closing Balance (To Statement I)	34,999,545.67
<b>Minor Capital Block Fund (Fund 06)</b>	
Opening Balance	104,670.00
Excess Revenue (Expenditures) to Date	1,083.77
Closing Balance (To Statement I)	105,753.77
<b>Sub Total Fund Balances</b>	<b>42,559,986.81</b>



*Appendix 6: Statement of Cash Flows*

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED MARCH 31, 2019

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Excess of Revenues over Expenditures	\$ 1,104,048	\$ 13,678
Item not requiring cash: Depreciation	544,992	581,957
Cash provided by (used for) changes in non-cash working capital:		
Accounts receivable	122,140	(161,867)
Consumable inventory	(35,216)	-
Prepaid expenses	(8,962)	6,524
Accounts payable and accrued liabilities	59,062	(353,060)
Wages and benefits payable	(6,356)	(50,931)
Deferred revenue	248,444	(6,301)
Cash from operations	<u>2,028,152</u>	<u>30,000</u>
<b>Capital Activities</b>		
Tangible capital assets purchased	<u>(492,036)</u>	<u>(155,582)</u>
Cash used for capital transactions	<u>(492,036)</u>	<u>(155,582)</u>
<b>Financing Activities</b>		
Capital lease obligation repaid	(87,501)	(202,356)
Capital lease obligation issued	9,723	610,067
Cash from (used for) financing activities	<u>(77,778)</u>	<u>407,711</u>
<b>Investing Activities</b>		
Land under development	<u>(132,673)</u>	24,863
Cash from (used for) investing activities	<u>(132,673)</u>	<u>24,863</u>
<b>Increase in cash and cash equivalents</b>	1,325,665	306,992
<b>Cash and cash equivalents, opening</b>	2,700,377	2,393,385
<b>Cash and cash equivalents, closing</b>	<u>\$ 4,026,042</u>	<u>\$ 2,700,377</u>
<b>Represented by:</b>		
Cash and cash equivalents	\$ 1,922,880	\$ 1,875,835
Reserve deposits	2,103,162	824,542
	<u>\$ 4,026,042</u>	<u>\$ 2,700,377</u>



*Appendix 7: Preamble to Audit Report*

**PREAMBLE TO  
INDEPENDENT AUDITORS' REPORT**

To the Mayor and Councillors of the Municipality

**Report on the Audit of the Consolidated Financial Statements**

**Qualified Opinion**

We have audited the consolidated financial statements of the Municipality, which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, except for matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Municipality as at March 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with the policies and standards prescribed for municipalities by the *Hamlets Act* of Nunavut and by the Department of Community and Government Services, Government of Nunavut.

**Basis for Qualified Opinion**

Our examination indicated that the accounting records for recreation revenue were inadequate and incomplete. In addition, we were unable to obtain sufficient appropriate audit evidence to support the valuation of the consumable inventory. Accordingly, our verification of recreation revenue and of consumable inventory was limited to the amounts recorded in the records of the Municipality and we were not able to determine whether any adjustments might be necessary to inventory, cost of sales, revenue, excess revenues (expenses) for the year and accumulated surplus.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Municipality in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect



a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by administration.
- Conclude on the appropriateness of administration's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### **Report on Other Legal and Regulatory Requirements**

As required by Section 147 of the *Hamlets Act* of Nunavut we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.





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We further report in accordance with the *Hamlets Act* (Section 147.1) of Nunavut that, in our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, proper books of account have been kept by the Municipality, the consolidated financial statements are in agreement therewith the records maintained by the Municipality and the transactions that have come under our notice have, in all significant respects, been within the statutory powers of the Municipality except as disclosed in Note 12 to the consolidated financial statements.

Chartered Professional Accountants  
June 6, 2019



*Appendix 8: Audit Management Letter*

**Excerpt from a Management Letter**

June 6, 2019

Dear Mayor and Councillors:

We have recently completed our audit of the consolidated financial statements of the Municipality for the year ended March 31, 2019. We would like to thank your staff for their valuable assistance throughout the audit.

During the course of our audit we identified matters that may be of interest to Administration. The objective of an audit is to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement and is not designed to identify matters that may be of interest to Administration in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters.

The matters identified, including our detailed comments and recommendations, are outlined on the following pages. We suggest that Council, in conjunction with Administration, develop a reporting system to ensure the implementation and monitoring of the recommendations that Council wishes to be implemented.

This communication is prepared solely for the information of Council and Administration and to meet the statutory requirements of Section 147(1(b)) of the *Hamlets Act*. It is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Should you require any additional information, or if we can be of any assistance in the coming months, please do not hesitate to contact our office.

Yours truly,

Partner  
Chartered Professional Accountants  
June 6, 2019



# FINANCIAL OVERSIGHT: PARTICIPANT'S GUIDE

Year ending: March 31, 2019

## Management Letter

### Operations and Fund Balances Summary

	Operating Fund	Water and Sewage Fund	Land Fund	Total
<b>Operating Revenue</b>				
Operating contribution	\$ 2,069,267	\$ -	\$ -	\$ 2,069,267
Water and sewage services	-	3,950,058	-	3,950,058
Land development and administration	-	-	412,450	412,450
Other revenues	1,236,608	-	-	1,236,608
Recreation revenues	221,899	-	-	221,899
Contract services	1,107,270	-	-	1,107,270
Municipal Liaison Officer	37,848	-	-	37,848
Community capacity building	190,416	-	-	190,416
	<u>4,863,308</u>	<u>3,950,058</u>	<u>412,450</u>	<u>9,225,816</u>
<b>Operating Expenses</b>				
Water and sewage services	-	3,106,638	-	3,106,638
Land development and administration	-	-	97,639	97,639
General government services	930,714	-	-	930,714
Protective services	148,663	-	-	148,663
Transportation and public works services	678,556	-	-	678,556
Environmental health services	85,830	-	-	85,830
Recreation services	1,027,993	-	-	1,027,993
Contract services	1,091,502	-	-	1,091,502
Municipal Liaison Officer	38,058	-	-	38,058
Community capacity building	216,303	-	-	216,303
	<u>4,217,619</u>	<u>3,106,638</u>	<u>97,639</u>	<u>7,421,896</u>
Operating surplus (deficit) before other items	645,689	843,420	314,811	1,803,920
Contributed assets	1,510,359	-	-	1,510,359
Government transfers related to capital	182,023	-	90,000	272,023
<b>Surplus (deficit) for the year</b>	<b>\$ 2,338,071</b>	<b>\$ 843,420</b>	<b>\$ 404,811</b>	<b>\$ 3,586,302</b>
<b>Net inter-fund transfers</b>				
Transfers to reserve funds	(215,660)	(419,374)	(355,946)	(990,980)
Transfers from reserve funds	793,705	-	14,735	808,440
TCA purchased less disposals	(2,700,873)	-	(90,000)	(2,790,873)
	<u>(2,122,828)</u>	<u>(419,374)</u>	<u>(431,211)</u>	<u>(2,973,413)</u>
Change in fund balance	215,243	424,046	(26,400)	612,889
Fund balances, opening	(864,941)	1,100,015	(84,119)	150,955
<b>Fund balances, closing</b>	<b>\$ (649,698)</b>	<b>\$ 1,524,061</b>	<b>\$ (110,519)</b>	<b>\$ 763,844</b>



Year ending: March 31, 2019

**Management Letter**

Observation	Weakness or Inefficiency	Recommendation
<b>DEFICIT AND BUDGETS</b>		
The Municipality continues to make progress in eliminating its accumulated operating fund deficit. While excess expenditures have been reduced, the accumulated deficit will continue to require financial restraint.	The <i>Hamlets Act</i> requires that deficits incurred in one year be eliminated by the end of the following year.	We recommend that the Municipality continue to work with Community and Government Services (CGS) on its deficit recovery plan and take the necessary steps to ensure adherence to the approved budget.
<b>RECEIVABLES AND PAYABLES</b>		
We noted that payments, particularly those processed outside the payables system, including a significant number of travel expenditures, did not have the appropriate supporting purchase authorization attached.	Documentation of purchase authorization, generally in the form of a purchase order, or approved cheque requisition, is an essential control over the Municipality's finances.	We recommend Management ensure complete appropriate documentation of purchase approval is obtained before any expenditures are made and that the documentation be filed along with the invoice in the vendor files.
We noted that the Municipality had started to separately track land leases receivable but that not all lands accounts receivable have been separated.	Tracking lands receivables separately will help efforts to follow up specifically on these invoices. Combining lands receivables with general accounts receivables makes any review of general accounts receivable more complicated and less effective.	We recommend the Municipality complete its set up of a separate category of accounts receivables for land invoices.





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Year ending: March 31, 2019

## Management Letter

Resolution #: \_\_\_\_\_

### Reviewed and Accepted by:

Mayor: \_\_\_\_\_ Date: \_\_\_\_\_

SAO: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

Councillor: \_\_\_\_\_ Date: \_\_\_\_\_

**Note:** In some municipalities, such as the City of Iqaluit, only the Mayor and SAO are required to sign the Management Letter.



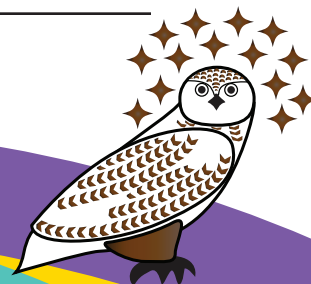


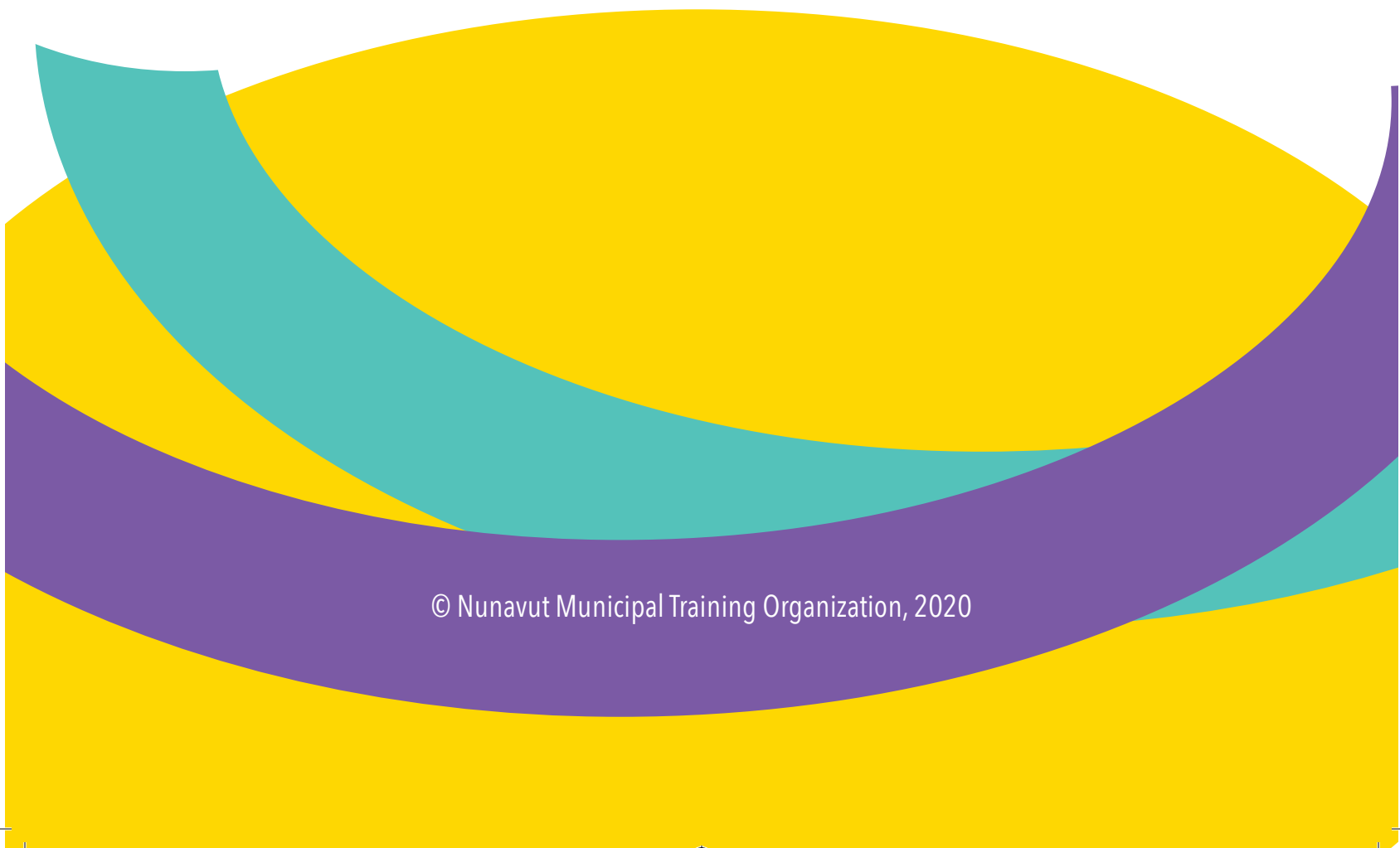


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