

Municipal Audit Guidelines

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Introduction

These guidelines have been prepared to assist municipal councils, administrators and auditors in their roles and responsibilities related to the conduct of municipal annual financial statement audits.

This document is not intended to be, nor should it be used, as a substitute for referring to *The Municipalities Act (MA)*, *The Cities Act (CA)*, *The Northern Municipalities Act (NMA)*, or Canadian Auditing Standards (CAS) and other relevant legislation. These guidelines are for advisory purposes and do not provide a legal opinion, attestation, or other forms of assurance. The application of accounting principles should be consulted with independent auditors.

This document discusses the following key areas:

- overview of the council's role in the financial management of the municipality,
- the duties and responsibilities of a municipal administrator, including a checklist that may be used by administrators for proper record keeping and audit preparation, and
- roles and responsibilities of the municipal auditor.

This includes a discussion of an auditor's qualifications and appointment, a description of the scope and objectives of an audit and general guidelines that auditors may use in developing their audit program. The document includes sample check lists to use while preparing for and completing an audit.

These guidelines are not intended to be absolute direction that auditors or municipalities must follow but rather are designed to help them develop an audit program.

Provincial government staff are available to provide assistance or answer questions related to municipal financial reporting and provincial policies respecting municipal accounting.

Council Responsibilities

Council is ultimately responsible to the public for ensuring that public funds are properly approved and accounted for. Legislation establishes the minimum control environment and control systems under which municipalities must operate. It is the responsibility of Council to ensure the control environment and control systems are maintained and operate effectively. This is done by establishing and maintaining policies and procedures referred to as internal controls. The auditor must have a sufficient understanding of internal control in order to plan the audit.

Internal control examples include but are not limited to the following:

- (a) Council setting and approving an annual budget,
- (b) Council approving all payments of funds from the municipality,
- (c) All municipal cheques signed by the administrator (or designate as authorized by council) and dually signed by at least one other person designated by council,
- (d) Administrator preparing and submitting to council a monthly statement of all receipts and disbursements reconciled to the municipal bank accounts with the related budgeted amounts included, and
- (e) Council ensuring proper segregation of duties within the municipal office.

In essence, Council is an integral part of the administration, management, and internal control in municipalities.

During the course of a standard financial audit, issues may be detected. The primary responsibility for the prevention and detection of fraud and error rests with council in accordance with CAS 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements." Internal control weaknesses detected during the course of the financial statement audit may be commented upon by the auditor in the management letter in accordance with CAS 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance".

Council should ensure there is a clear understanding of the municipal audit process. This is normally communicated in the engagement letter and other related correspondence. If an auditor does not prepare an engagement letter the council should request one prior to any actual service being performed. The estimated audit fee, based upon budgeted audit time, should also be discussed prior to beginning audit work.

The engagement of an auditor is similar to any other contractual obligation. After the engagement has been agreed to by both parties it is expected that both will fulfil all obligations in a satisfactory manner. Council should then ensure that administrative staff co-operate with the auditor and provide all books, records and supporting documentation for examination during the audit process in accordance with CAS 210.

The Government of Saskatchewan also has a role regarding internal control.

Provincial legislation gives the applicable minister authority to conduct audits, inspections and inquiries and provide directions and dismiss based on the findings [MA 140.1, 189, 395, 396,397,399 CA 160, 352, 353, 354,356, NMA 211, 416, 417, 418, 420].

Administrator's Responsibilities

The specific legislative duties and responsibilities of an administrator (clerk/treasurer) are specified in the appropriate provincial legislation.

In addition to legislative requirements, the administrator must ensure that the accounting system is maintained, and the data is backed up properly, that adequate books of original entry are properly maintained and that internal controls exist to protect the assets of the municipality. The extent to which books are kept, including the number and type of ledgers and subsidiary ledgers will vary from municipality to municipality.

In the case of municipalities where administrators do not have the experience, training and/or qualifications to maintain all of the required accounting records the auditor is prohibited from providing bookkeeping services to the municipality. If the auditor were to provide bookkeeping services, it would create a self-review threat to the auditing company's independence as its staff would essentially be auditing their own work. This also applies to larger auditing partnership firms as the bookkeeping simply cannot be performed by an individual outside the engagement team. It is the firm as a whole that must retain independence on this issue in accordance with Canadian Standards on Quality Management 1 "Quality Management for Firms that Perform Audits and Reviews of Financial Statements" and CAS 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards".

It must be ensured that the auditors selected to perform the audit are licensed by CPA Saskatchewan to practice in the province of Saskatchewan.

Municipal administrators are expected to complete and balance all books and records to the end of the year. If books and records are not complete and balanced when presented to the auditor, the auditor should bring this to the attention of the administrator and council.

The administrator is generally responsible for completing the following tasks:

- All records and books of account should be completed, posted, balanced, and made available for examination by the auditor. Supporting data should be grouped and matched to allow easy examination.
- Payroll records should be completed for the fiscal period and required T-4 forms and any other forms should be completed and filed with the appropriate government ministry or agency.
- A general ledger trial balance should be completed to determine whether adjusting entries are required. Adjustments should be journalized and posted so that a working trial balance can be completed prior to the audit.
- Other working papers to be prepared by the administrator for checking and verification by the auditor would include and may not be limited to the following:
 - (a) Cash and bank reconciliations; bank statements and passbooks,
 - (b) Accounts receivable list with supporting documentation,
 - (c) Accounts payable list with supporting documentation,

- (d) Listing of inventories e.g., gravel, culverts,
 - (e) Investments list with supporting documentation,
 - (f) Tangible capital asset (TCA) list with details of acquisitions and disposals,
 - (g) List of debentures or other debt instruments such as notes and security agreements including due but unpaid debentures or coupons,
 - (h) Liabilities list,
 - (i) Analysis of reserves/allowances,
 - (j) Analysis of any restructuring activity,
 - (k) Analysis of ARO documentation,
 - (l) Financial instruments year-end statements and valuations,
 - (m) Analysis of surplus/deficit account,
 - (n) Analysis of equity in TCA,
 - (o) Analysis of revenue items by source,
 - (p) Analysis of expenditure items by category,
 - (q) Analysis of capital sources and uses,
 - (r) Vouchers for payments made during the year,
 - (s) A copy of the approved budget for the year,
 - (t) Statements from the Land Titles office re: deposit account,
 - (u) Applications for government grants and related data and correspondence,
 - (v) Information on requisitions of funds from SAMA,
 - (w) Letter from the provincial government or separate school division(s) (if applicable) indicating school mill rate(s) to be levied,
 - (x) Statements of liability with other taxing authorities including a copy of any council resolution to cancel taxes,
 - (y) Annual assessment returns and certificate of confirmation,
 - (z) Minutes of council meetings held, and bylaws passed during the year,
 - (aa) Orders, approvals, decisions, etc. of the Saskatchewan Municipal Board, and
 - (bb) Titles for all properties owned by the municipality with details of acquisitions and disposals in particular, additions to and sale of Tax Title Property.
- A draft copy of the financial statements should be prepared by the municipality prior to the auditor's fieldwork beginning.
 - Any other function or task that may be mutually agreed upon by the auditor and administrator.

Auditor's Responsibilities

Auditor Qualifications and Appointment

Section 188(1) MA, Section 159(1) CA and Section 210(1) NMA state that every auditor of a municipality must be a member in good standing of an accounting profession recognized pursuant to *The Accounting Profession Act, 2014*.

Council is required to appoint an auditor. The appointment can be for a definite period of time, or it can be indefinite. Regardless, a council resolution is required before Council can dispense with the services of an auditor. The resolution does not take effect until 30 days after notice of dismissal is mailed to the departing auditor.

The provincial government may require that Council appoint another auditor if, in the opinion of the responsible minister, the auditor has not satisfactorily discharged their duties.

Before beginning an audit, the auditor should prepare and send an engagement letter to the local government outlining the services to be performed. The purpose of the letter is to clarify for Council and the administrative personnel exactly what work will be performed during the audit in accordance with CAS 210.

While estimating a fee the auditor should segregate the budgeted fees for any specialized work or accounting and the regular audit fees so that the local government can clearly see how the total charges are derived (CAS 260, "Communication with Those Charged with Governance").

Before beginning an audit, the auditor must be made aware of any changes that have occurred during the year that may impact the scope/risk assessment of the audit in accordance with CAS 315, "Identifying and Assessing the Risks of Material Misstatement". These would include, but would not be limited to, the following:

- Key personnel/organizational changes,
- Boundary changes/new or discontinued locations or divisions and the operations and accounting functions performed there,
- Major changes in operating assets,
- New or discontinued services,
- Changes in financing or line of credit,
- Changes in work force, union agreements, benefit plans,
- Changes in accounting policies,
- Current problem areas which may have accounting/auditing implications,
- Arrangements for assistance by administrative personnel and access to municipal facilities and records, and
- Reporting dates for draft financial statements and any possible audit committee/council meeting requirements.

Scope of the Audit

The objective of an audit of a municipality is to express an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards CAS 200.

Saskatchewan's municipalities must prepare their financial statements in accordance with Canadian public sector accounting standards as recommended by the Chartered Professional Accountants of Canada (CPA Canada).

Every municipal auditor in Saskatchewan must follow the CPA Canada Handbook - Assurance while conducting the audit.

Using their professional judgement the auditor will decide the nature, timing and extent of the examination and verification of accounting records -CAS 230 "Audit Documentation").

Ultimately, the auditor must be satisfied the financial statements of the municipality present fairly in all material respects the financial position and results of its operations and cash flows in accordance with Canadian public sector accounting standards. If the auditor feels that any municipal accounting policy results in a financial statement that materially misleads the readers of the statement they must report and explain the discrepancy in a management letter.

It is strongly suggested that the books be examined, and the audit performed in the office of the municipality where the municipality has limited Internet access. If this is not possible or practical, the auditor must ensure that books are returned promptly to the administrator in person or through a traceable medium such as registered mail. Where the municipality has Internet access, documents may be provided over email or another platform to the auditor to allow for a remote audit.

The administrator is ultimately responsible for the safekeeping of the books and should not be put in a position where they jeopardize this duty by allowing the books to remain in the auditor's office for an extended period of time where the municipality has limited access. Where information is provided virtually, the auditor should not retain the documents beyond the audit period.

Key Audit Matters

The Auditing and Assurance Standards Board (AASB) is continuously working to increase the value of the auditor's report by providing further transparency about the audit performed. The most notable recent change is the decision to implement the communication of key audit matters (KAMs) as set out in CAS 701, "Communicating Key Audit Matters in the Independent Auditor's Report." KAMS are intended to assist users in understanding the most significant areas of the audit and highlight areas of significant judgment in the audited financial statements. KAMs may be included in the audit report for municipalities.

Auditing Accounting Estimates

CAS 540, “Auditing Accounting Estimates and Related Disclosures” requires the auditor to evaluate whether accounting estimates and the related disclosures are reasonable based on audit procedures performed and audit evidence obtained.

The standard:

- Establishes more robust requirements for the auditors to perform appropriate procedures, and
- Emphasizes the importance of applying professional skepticism when auditing accounting estimates.

Virtually all financial statements contain accounting estimates. The auditor’s objective is to obtain sufficient appropriate audit evidence to ensure accounting estimates are reasonable in the context of the applicable financial reporting framework.

Management Letters

Subsection 189(3) MA, Subsection 160(3) CA, and Subsection 211(3) NMA require the auditor to report any improper or unauthorized transactions or non-compliance with legislation or any other statutes or bylaws that they find during the course of the audit. The auditor must send a report to the council of the municipality and a copy to the responsible minister of the Government of Saskatchewan in accordance with CAS 260, Paragraph 16. While legislation requires the reporting of “any” problem, auditors are encouraged to use their professional judgement to determine the materiality of the items listed in the management letter.

During the examination of the municipal accounting records, the auditor may detect instances of error, fraud, theft, or other misappropriation of funds. While the auditor's primary function is certainly not that of uncovering error and fraud, if such a discovery is made the auditor's response will depend upon their judgement of the importance of the discovery. In this regard the CPA Canada Handbook - Assurance, CAS 240 should guide auditors. In instances of suspected fraud by a municipal employee, the auditor must inform Council and the responsible minister. If Council is suspected of fraud or error the responsible minister must be informed.

The auditor's report is used to express an opinion as to the fair presentation of the financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS). The auditor’s report will also identify reservations in opinion (i.e., modification in opinion) where there are limitations in their audit examination or a departure from the applicable financial reporting framework, PSAS, for the municipality. The table below summarizes the types of modified audit opinions that may be issued by an auditor in accordance with CAS 705, “Modifications to the Opinion in the Independent Auditor’s Report.”

Nature of Matter Giving Rise to the Modification	Auditor's judgment about the pervasiveness of the effects or possible effects on the financial statements	
	Material but Not Pervasive	Material and Pervasive
Financial statements are materially misstated. (Departure from applicable financial reporting framework)	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence (Limitation on the scope of the audit)	Qualified opinion	Disclaimer of opinion

The management letter may be used to further clarify reservations in the auditor’s report and may include other matters the auditor wishes to communicate to council.

Management letters must be submitted to the council and to the responsible minister along with the annual consolidated financial statements of all controlled corporations (187 and 189 MA, 158 and 160 CA, and 209 and 211 NMA). The auditor should follow up on the action taken by the municipality as a result of the management letter during the next period's audit. The responsible minister will follow up on the letter, when necessary, by contacting both the auditor and the municipality as soon as possible after receipt of the letter.

Auditors are encouraged to use an informal approach as well as a formal management letter. Written and verbal communication with both the client and the ministry could help resolve problems even before they occur.

Sample Audit Preparation Checklist

The following "checklist" may be used as a guide to proper record keeping and audit preparation:

Note: The following checklists may not be all-encompassing and should be used as a guide when performing record keeping and preparing for the audit.

Cash and Securities

Task	Complete
Ensure that all types of official receipts such as tax, general and utility receipts have been entered in the accounting record – check for correct distribution.	
Ensure numbered receipts are in use and that there is proper control of same. Note the continuity of receipt numbers. Maintain two copies of any void receipts.	
Ensure discounts and rebates allowed on tax payments are in accordance with the authorizing bylaw or legislation.	
Check and ensure that deposits to bank accounts are being made in accordance with legislation, are on a proper deposit form and are intact. Ensure deposit forms have been completed properly and investigate cases of third-party cheques for which no receipt was issued. Note any lack of control in the management letter.	
Confirm deposits in transit.	
Investigate returned items re-deposited.	
Determine if the cash on hand was verified by the administrator throughout the year, i.e., daily, weekly or at time of deposit.	
Verify cash on hand as at audit date. Determine if the administrator handles cash belonging to other organizations or individuals.	
Verify that the investments and securities held by the municipality are accounted for in accordance with PS 3450.	
Confirm bank account(s) balances with financial institution(s).	
Examine cancelled cheques, debentures and coupons, vouchers and invoices for validity and classification. Ensure that proper authority was given for disbursements, i.e., prior council resolution or bylaw, supported by vouchers. All cheques are to be numbered and accounted for. Ensure numeric control exists Note any lack of internal control in the management letter.	
Verify that contributions made by the employer and employees to pension plans, Employment Insurance Commission (EIC), Canada Pension Plan (CPP), income tax, group benefits, etc. are being correctly calculated and accounted for.	

Task	Complete
Determine if the sale and/or purchase of property is supported by resolution/bylaw and if agreements for sale are in place and that proper accounting is done for tax title property vs. real estate. Price lists for assets for resale, particularly lots, should be in place.	
Ensure that application forms for grants earned are being promptly submitted to the government agency concerned. Verify with the issuing agency that the grant was paid or approved for payment.	
Ensure that grants-in-lieu of taxes are being applied for on any government or crown corporation property which is exempt from taxation but eligible for such grants.	
Confirm that remittances to other taxing/requisitioning bodies are being made in accordance with the relevant statute. Verify that liability statements reflect these payments.	
Ensure that grants paid to third parties on behalf of and at the request of the municipality are reflected in revenues and expenditures.	

Assessment and Tax Roll

Task	Complete
Verify that all properties are included in the assessment and tax roll.	
Verify that the assessments coincide with the Certificate of Confirmation (original and supplementary) for each category and for the total.	
Verify that any changes made to assessments were properly approved by the Board of Revision, Assessment Appeals Committee, or the Court of Appeal and that the Assessment Return has been submitted to the Saskatchewan Assessment Management Agency (SAMA).	
Check the calculations in the tax roll and ensure that the mill rates used were authorized by resolution according to the budget or statute for school and hospital rates, etc. Local improvement levies such as frontage taxes should be checked against the local improvement assessment roll and enabling bylaw(s). Other levies should be checked and the authorization by bylaw confirmed. If mill rate factors, minimum tax, base tax, or tax phase-in are in use authorizing bylaws should be checked.	
Ensure that the assessment and the tax roll have been properly totaled and balanced.	
Check to see that the assessor's and administrator's certificate regarding the mailing of assessment and tax notices are present.	
Verify that the effective tax rate (ETR) limit is within 7:1. The limit is placed on the use of local tax tools effective in the 2023 tax year. The ETR is the total municipal property tax levy for a given property class or a subclass, if applicable, divided by the taxable assessment for that property class or subclass within a municipality after all tax tools, mill rate factors, base tax, and minimum tax, are considered. If no local tax tool is deployed, then the uniform mill rate equals the ETR.	
<p>Ensure that all amounts that may be added to the tax roll are added as required. For example, the MA legislates the following may be added to the tax roll:</p> <ul style="list-style-type: none"> • Subsection 369(1)(a) - unpaid costs relating to service connections of a public utility that are owing with respect to the parcel. • Subsection 369(1)(b) - unpaid utility charges. • Subsection 369(1)(d) - unpaid fees or charges for services or activities provided by or on behalf of the municipality respecting fire and security alarm systems. • Subsection 369(2)(b) - monies owed to the municipality for the costs incurred by the municipality in eliminating an emergency. • Section 405 - custom work charges. 	
Check to see that changes in the tax roll were authorized by resolution/bylaw, done by way of general journal entry, and properly distributed (e.g.,	

Task	Complete
cancellations, adjustments, addition of costs). Other adjustments made to the roll must have statutory authority (e.g., tax title property acquired and Workers' Compensation Board assessments).	
Check posting of receipts and general journal to the tax roll.	
Verify statutory and/or bylaw authority for and the proper calculation of penalties on taxes.	
Verify that outstanding balances at year end for each category of taxes agree with the general ledger balances.	
Ensure that tax verification notices are to be sent as required by legislation. Positive confirmation by auditors may be used if deemed necessary.	
Verify that liability statements of the taxing/requisitioning bodies agree with the general ledger accounts and with cash receipts records.	

Utility Records

Task	Complete
Verify that the utility rates being charged have been properly authorized. In all municipalities except cities, this shall be done by bylaw and must be approved by the Saskatchewan Municipal Board (SMB).	
Ensure that the utility rates being charged match the subsidiary and general ledgers and adjustments are being properly accounted and recorded.	
See also: "Cash & Securities" re: receipting, posting, numeric control of receipts, etc.	
Verify that utility deposits balance with the general ledger accounts and that they are being properly accounted for and recorded.	

General Ledger and General Journal

Task	Complete
Check opening balances from the previous year's statement or trial balance.	
Check postings to the general ledger and subsidiary ledgers from cash receipts, cash payments and general journals.	
Check postings to the general ledger for financial instrument year-end valuation adjustments.	
Determine if postings were made promptly during the year.	

Task	Complete
Prove assets and liabilities to the extent possible. Examples are cash on hand by cash count; land inventories especially tax title property by examination of titles; overdraft liability by bank confirmation; and explain the situation if documentation is not available.	
Evaluate asset valuation allowances and recommend adjustments where deemed necessary.	
Check general ledger balances against the liability statements of other taxing/requisitioning bodies and subsidiary ledgers such as the tax roll, utility accounts, securities register, and the tax title property record.	
Ensure that the organized hamlet reserve memo account is in balance with the organized hamlet reserve general ledger account and that the accounting for the organized hamlet funds conforms to the approved procedure.	

Minutes and Bylaws

Task	Complete
Ensure that minutes of council meetings properly authorize expenditures and other financial transactions, such as the budget and land sales. Verify that minutes are properly signed, pages initialed and that a quorum existed at each meeting. Check for proper notice or waiver of notice for special meetings. Comment in the Management Letter if you believe a material error was committed.	
Read bylaws which must be included within or attached to the minutes of the meeting at which third reading was given and carried to ensure that the bylaws were properly adopted and were approved by the SMB where necessary. Comment in the Management Letter if you believe a material error was committed.	
Verify that bylaws have SMB approval for items including, but not limited to, long term loans and leases, proper accounting and establishing repayment terms.	

Budget

Task	Complete
Verify that a budget, including a five-year capital works plan, was adopted and compare budget to actual results. Comment in the Management Letter if you find material differences.	
Verify that the budgeted mill rate was used in the tax roll and that the budget properly reflects the application of any tax tools, mill rate factors, base tax, and minimum tax.	

Task	Complete
Ensure that changes to the budget made after its initial adoption are investigated to ensure that the proper authority such as a resolution or bylaw was used.	

Tax Enforcement Property Records and Securities and/or Debenture Records

Task	Complete
Verify that these records are being maintained properly and that the balances agree with the general ledger accounts.	

Other

Task	Complete
Ensure that the accounting records are kept in a manner consistent with Canadian public sector accounting standards.	
Examine the surety bonds of all employees who are required to be bonded. Comment on any conditions not being adhered to.	
Examine the property land titles on hand to ensure that they balance to the general ledger accounts and tax title property records.	
Review and follow up on the previous year's Management Letter.	
Examine insurance policies.	
Discuss transitional provisions with auditors for any new standards coming into effect to ensure there is appropriate treatment of new standards.	
Check if any assets need to be reclassified as held for sale. Assets held for sale should meet the following criteria: <ul style="list-style-type: none"> • the municipality is committed to selling the asset, • the asset is in a condition to be sold, • the asset is publicly seen to be for sale, • there is an active market for the asset, and • there is a plan in place for selling the asset and the sale is reasonably anticipated to be completed within one year of the financial statement date. 	
Ensure that asset retirement obligations (ARO) are accounted for in accordance with PS 3280. Review TCA to assess what assets may require ARO, consider applicable legislation. Determine ARO estimate and verify ARO entries are appropriately recorded. May require consultation with the auditor and/or an independent consultant.	
Ensure that any public private partnerships are accounted for in accordance with PS 3160 (applicable in 2024).	

IT security

Note: This is a preliminary listing of IT items for consideration

Task	Complete
Verify that terminated employees have been removed from systems.	
Verify that users have the appropriate level of access.	
Ensure there is a robust password policy to ensure all users have strong passwords.	
Ensure employees are educated about cyber security risks and vulnerabilities.	
Ensure that data is backed up regularly.	
Scan the network firewall and update security subscriptions.	

CAS References

The following is a listing of CAS references used through the document:

- CAS 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards”
- CAS 210 “Agreeing to the Terms of Audit Engagements”
- CAS 230 “Audit Documentation”
- CAS 240 “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”
- CAS 260 “Communication with Those Charged with Governance”
- CAS 265 “Communicating Deficiencies in Internal Control to Those Charged with Governance”
- CAS 315 “Identifying and Assessing the Risks of Material Misstatement”
- CAS 540 “Auditing Accounting Estimates and Related Disclosures”
- CAS 701 “Communicating Key Audit Matters in the Independent Auditor’s Report”
- CAS 705 “Modifications to the Opinion in the Independent Auditor’s Report”