

Instructions to Auditors

General

Annual Financial Statements for Divisional Education Councils (DECs) and District Education Authorities (DEAs), the Commission scolaire francophone, Territoires du Nord-Ouest, and the Tłıchǫ Community Services are to be audited by an auditor appointed by the education body and approved by the Minister of Education, Culture and Employment (ECE). Under section 99(2) of the *Financial Administration Act (FAA)*, auditors must address their reports to the Minister of ECE. Reports should take the form of a standard auditor's report as recommended in section 5400 of the CICA manual, and according to section 99 of the *FAA*.

99(2) the auditor shall report annually to the appropriate Minister on the results of their examination of the accounts and the financial statements of the public agency and shall

- (a) state whether, in the opinion of the auditor,
 - (i) the financial statements present fairly the financial position as at the end of the financial year and the results of the operations and the changes in financial position for that year in accordance with an appropriate disclosed basis of accounting consistently applied,
 - (ii) proper books of account have been kept and the financial statements are in agreement with the books of account, and
 - (iii) the transactions that have come under the notice of the auditor are in accordance with
 - (A) the *Financial Administration Act* and the regulations,
 - (B) the *Education Act* and regulations made under it,
 - (C) the bylaws of the education body, and
 - (D) any directives issued to the education body by the Minister, the Superintendent or another education body under the *FAA* or the *Education Act*.
- (b) report on any other matter falling within the scope of the examination of the auditor that, in the opinion of the auditor, should be commented on [*FAA* 99(2)].

Scope

Education bodies established under the *Education Act*, are Schedule A Public Agencies under the *FAA*. Part IX of the *FAA* deals specifically with Public Agencies. The scope of the Auditor's Report (99(2)(3) (above) includes compliance with the Act.

In addition, certain government policies are deemed to apply to education bodies:

- Accounting Policies (re: Financial Statements)
- Accounting Policies (O & M versus Capital & Lease to Purchase FAM 1703)
- Timing of Payments (FAM 1804)
- Contract Regulations (FAM 3301)
- Honorariums (FAM 1818)
- Duty Travel (FAM 2001)

Education body policies and bylaws must be in keeping with the spirit and intent of government policies, the *FAA* and its Regulations. Where there is no specific education body policy, the education body financial administration must be consistent with GNWT policies and legislation as listed above.

Format of the Auditor's Report

In accordance with the CICA Handbook, the Auditor's report should contain an introductory paragraph, a scope paragraph, and an opinion paragraph as recommended in Section 5600. In the paragraph following the opinion paragraph the auditor should state that these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian Generally Accepted Accounting Principles, are solely for the information of the GNWT and are not intended to be and should not be used by anyone other than the specified users, or for any other purposes.

Also, an additional paragraph should be added, as per Section 5701, reflecting compliance with the aforementioned acts. The suggested format of this paragraph is as follows:

We further report, in accordance with the Financial Administration Act, in our opinion, proper books of account have been kept by the education body, the financial statements are in agreement therewith, and the transactions that have come under our notice have, in all significant aspects, been within the statutory powers of the education body.

Note to Divisional Education Council Auditors

Scope Limitations of Audit

The GNWT payroll section, Department of Human Resources, administers salaries and benefits paid to DEC employees. These payroll amounts are audited as part of the GNWT audit, and are not available to be audited as part of the DEC audit, resulting in a scope limitation to the auditor's report.

Presentation of Statements

Statements must be presented in the attached format for "Standardized Financial Statements". The Department requires consolidated financial statements that reflect the financial status of the divisional education council and the education districts in the division. There is a separate "Statement of Revenue and Expenses" for each district education body supported by a "Details of Expenditures" schedule. These statements are to be consolidated with the divisional education council's statements.

The education body may have additional schedules attached for their own use, but the information shown as standardized must be audited. The statements were developed with Departmental reporting requirements in mind, and the Department has provided assistance to the education body in developing a standardized Chart of Accounts.

Education bodies are also required to submit an electronic file of their detailed General Ledger Trial Balance for the year ended June 30th to the Department of Education, Culture and Employment. This information is to be sent to sheila_devine@gov.nt.ca. In MasterWorks Financial Systems under Processes/GL Processes/ Create File Procedure, create ASCII file. This process creates a file called D1acct.prn.

Accounting Principles

Generally Accepted Accounting Principles should be used in recognition of revenues and expenditures. Specifically, please note the following:

1. Salaries

Salary expenditures, including vacation and leave benefits must be fully accrued at year-end. This includes amounts for summer salary for teachers, classroom assistants, and school year employees. Any amount accrued for summer salary should be shown in the notes to the financial statements.

According to the Northwest Territories Teachers Association (NWTTA) and GNWT Collective Agreement, NWTTA staff currently receive their salary in accordance with the GNWT bi-weekly pay system. In previous agreements, staff were paid in accordance with the bi-weekly pay system during the academic year. This change in the GNWT/NWTTA Collective Agreement means that while NWTTA staff will have earned their annual salary by June 30th, they will, however, receive payment over the summer. The amount that will be paid during July and August must be accrued as of June 30th.

2. Resignation, Retirement and Ultimate Removal Benefits

Under collective agreements, education bodies are required to pay benefits to employees at retirement or upon termination. The amount of this benefit earned by employees is to be shown as an accrued liability. The estimated amount to be paid in the subsequent fiscal period should be shown as a current liability. As funding for employee leave and termination benefit liabilities are not provided until incurred, the amount for each benefit should be listed in the notes to the financial statements.

3. Education Body Employment Contracts

The education body may be required to pay benefits to contracted employees. Personnel records should be reviewed to ensure employee eligibility to benefits, in each case. The education body may also be required to pay benefits to employees upon termination of a contract. The amount of this benefit earned by employees is to be shown as an accrued liability. The estimated amount to be paid in the subsequent fiscal period should be shown as a current liability. The amounts for these accruals should be shown in the notes to the financial statements.

4. Divisional Education Councils – Infrastructure Funding

The schedule "*Report on Activities of Specific Programs – Infrastructure*" is required to report utility and lease costs, as well as personnel staffing and benefit costs. Where funds provided exceed expenditures, the DEC will be invoiced for the surplus in the subsequent fiscal period. The DEC may request supplementary funding to cover shortfalls. Surpluses, therefore, should be shown as liabilities to the GNWT. Deficits cannot be shown as receivables because recovery is subject to legislative approval.

5. Capital Contributions

In accordance with capital contribution agreement terms, capital resources are for specified projects. Education bodies must refund to the GNWT any surpluses resulting from capital contributions. Capital contributions and expenses are to be recorded on the *Statement of Revenue and Expenses* and totals must be recorded in a note to the financial statements. Councils should also include the detailed report on capital contribution agreements in the *Report on Activities of Specific Programs*.

6. Other Program Funding

Other programs are funded as specific programs, such as the Canada-NWT Agreement on Minority Language Education and Second Official-Language Instruction, and require additional financial schedules. Refer to contribution agreements for details.

Another new schedule included with this package is the Details of Inclusive Schooling Expenditures. Refer to the *Ministerial Directive on Inclusive Schooling – 2006* for details.

7. Other Surplus (Deficit) Amount

Most other funding is provided to education bodies as block funding, and the education bodies are responsible for any surplus (deficit) amounts. Surpluses may be used to cover operating deficits in subsequent periods, or as each education body sees fit.

Departmental policy requires that accumulated deficits be recovered within three fiscal years.

Previous year surplus cannot be recorded as a transfer to current year operating revenue on the Statement of Revenue and Expenditures.

Under Departmental Accounting Policy, surplus (deficit) for DEC or Yellowknife DEA management purposes is calculated as:

$$\begin{array}{r} \text{Accumulated Surplus (Deficit)} \\ + \\ \text{Accrual for Retirement, Resignation and Ultimate Removal} \\ + \\ \text{Infrastructure Deficit} \\ + \\ \text{Accrual for Summer Salaries/Benefits (classroom assistants)} \end{array}$$

The accumulated surplus (deficit) for management purposes should be calculated and shown in the notes to the financial statements and compared to the Department guideline. The latter states that an education body's accumulated management surplus should not exceed \$500,000 or five percent of its annual budget, whichever is greater. The note is to be referenced on the Statement of Accumulated Surplus (Deficit).

8. Contingencies

Contingent liabilities, including any situations that are known but for which a reasonable estimate of the future liability cannot be made, must be disclosed in the notes to the financial statements. A contingency is defined as a situation involving uncertainty as to a gain or loss, the outcome of which will be determined by the occurrence or non-occurrence of a future event. Examples of contingencies are:

- Pending litigation;
- Guarantees of the indebtedness of third parties;
- Contractual agreements that may result in a future liability pending future events;
- Guarantees of indebtedness of third parties.

The existence of a contingent loss (liability) at the date of the financial statements is disclosed when:

- The occurrence of the future event is likely but the amount of the loss cannot be reasonably determined; or
- The occurrence of the future event is likely and an accrual has been made but there is possible exposure to a greater liability; or
- The occurrence of the future event is unable to be determined.

A situation where a definite liability exists, but there is uncertainty as to the amount, does not constitute a contingent liability. An accrual should be made using the best estimate.

The amount of a contingent loss should be accrued in the financial statements when it is likely that a future event will occur that will result in a liability being incurred, the amount of which can reasonably be determined.

9. Capital Asset Presentation

The GNWT has changed the way it accounts for tangible capital assets to comply with new Public Sector Accounting Board guidelines. All DEC assets are the property of the GNWT. On the other hand, all Yellowknife DEA assets are the property of the education body. GNWT policy requires that all assets over \$50,000 must be reported and amortized in accordance with Financial Administration Manual guidelines. Further details are provided in section 2201 (previously 602) – *Tangible Capital Assets* in the FAM.

September 30th Audit of Student Enrolment

The requirement for auditors to carry out enrolment audits has been removed from this year's instructions as all schools are using eSIS to track attendance. ECE will continue to monitor and analyze attendance using internal tools.

Management Letters and Other Matters

Copies of Management Letters should be addressed to the Minister of ECE, as per Section 99 (2)(b) of the *FAA*.

Statutory requirements for education body are set out in the *Education Act* and the *FAA*. Particular reference should be made to the following sections:

Financial Administration Act

Part IX	Councils and Yellowknife Districts are Schedule A Public Agencies
Sec 78	Directives from the Minister
Sec 80	Borrowing
Sec 81	Investment of Public Agency Money
Sec 82-84	Write off of assets
Sec 86-88	Debts, obligations, guarantees, & indemnities
Sec 89	Financial records and control of assets

Education Act

Sec 78	Superintendents of Education
Sec 79-96	Education Districts/District Education bodies
Sec 97-100	Public Denominational Education District
Sec 101-116	Education Divisions/Divisional Education Councils
Sec 117-125	Duties and Powers of Education bodies
Sec 127-149	Financial Matters

Submission of Financial Statements

The *FAA* requires that education body annual reports, including financial statements, be submitted to the Minister of ECE no later than 90 days following the end of the fiscal year on June 30th (i.e. on September 28th).

The auditor is to address the audit report to the Minister of ECE. As such, the original is to be presented directly to the Minister of ECE, with copies to the Deputy Minister and the Director of Strategic and Business Services, both at ECE.

The GNWT consolidates education body audited financial statements, which means that Government Accounting requires an electronic copy of all statements. The statements are to be emailed to vince_mccormick@gov.nt.ca.