

**Indian and Northern Affairs Canada -
Audit of the Nunavut Surface Rights Tribunal**

Internal Audit Report

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Audit and Assurance Services Branch**

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Abbreviations

ADM	Assistant Deputy Minister
AES	Audit and Evaluation Sector
HQ	Headquarters
INAC	Department of Indian and Northern Affairs Canada
OAG	Office of the Auditor General
NSRT	Nunavut Surface Rights Tribunal
TB	Treasury Board of Canada

Executive Summary

The objective of the audit was to provide assurance that appropriate financial information regarding the Tribunal's activities during the 2004, 2005, and 2006 fiscal years was both prepared and maintained and that appropriate due diligence was taken in regards to a \$20,000 payment for translation services.

Based on the procedures completed, AES concludes that the NSRT's lack of appropriate financial records and documentation prevents the performance of financial audits for the 2004, 2005 and 2006 fiscal years. Further, as no supporting documentation was located, AES is unable to conclude on the nature and extent of due diligence taken in regards to the \$20,000 payment made for translation services.

Recommendations to improve the NSRT financial management have been identified and included at the end of this report.

1.0 Statement of Assurance

We have completed our limited procedures audit of available financial records of the Nunavut Surface Rights Tribunal ("NSRT" or "the Tribunal") which is independent from Indian and Northern Affairs Canada ("INAC" or "the Department"). The objective of this audit was to provide assurance that appropriate financial information regarding the Tribunal's activities during the 2004, 2005 and 2006 fiscal years was prepared and maintained, and appropriate due diligence was taken in regards to the \$20,000 payment for translation services.

This audit was conducted in accordance with the requirements of the Treasury Board of Canada (TB) *Policy on Internal Audit* and followed the Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing.

The audit team assessed the available financial information against selected audit criteria, outlined in Appendix A of this report, including those in accordance with specific provisions of the *Canadian Institute of Chartered Accountant's Handbook*.

In my professional judgment, as Chief Audit and Evaluation Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of situations, as they existed at the time of the audit against the established audit criteria. It should be noted that the conclusions are only applicable for the areas examined.

2.0 Introduction

The Nunavut Surface Rights Tribunal was established under the *Nunavut Water and Nunavut Surface Rights Tribunal Act* (“Act”) as an arbitrator of disputes over access to land, compensation payable to the surface title holder for access and use of sand and gravel, and wildlife compensation claims. It is independent from government, industry or Inuit organizations.

Pursuant to Sub-section 114(2) of the Act, the NSRT is required to maintain financial records in accordance with accounting principles recommended by the Canadian Institute of Chartered Accountants. Further, Sub-section 114(4) of the Act stipulates that the financial statement audit be conducted by the Auditor General of Canada.

On June 23, 2009, the Department received a letter from the Office of the Auditor General of Canada (OAG) outlining:

- That a lack of appropriate management of financial records and supporting documentation has prevented the OAG from being able to perform audits for the 2004, 2005 and 2006 fiscal years; and
- Their concern that a \$20,000 payment for translation services, made during the summer of 2006, may be un-substantiated.

This engagement involves an investigation and review of the two matters brought to the Department’s attention in this letter.

3.0 Objectives

The objective of the audit was to provide assurance that appropriate financial information regarding the Tribunal’s activities during the 2004, 2005, and 2006 fiscal years was both prepared and maintained and that appropriate due diligence was taken in regards to a \$20,000 payment for translation services.

4.0 Scope

The scope of the audit included:

- 1) An examination and assessment of available financial information for the years 2004 through 2006 inclusive; and
- 2) An examination of the available documentation to identify and assess the nature and extent of due diligence taken in regard of the \$20,000 payment made during the Summer of 2006.

5.0 Approach and Methodology

The examination phase of this audit was conducted between March and May 2010. The principal audit techniques used during the examination phase included the following:

- *Documentation Review* – The documentation that was subject to examination included, but was not limited to, available policies and procedures relevant to financial administration, and financial information located at INAC headquarters (HQ) and Nunavut office, and the OAG.
- *Interviews* – Interviews were conducted at HQ with representatives from the Treaties and Aboriginal Sector. Interview guides were developed taking into consideration the objectives of the audit.
- *Investigation* – Further investigative procedures were conducted based on the information gathered during the initial documentation review and preliminary interviews. These procedures included: researching policies and procedures, reviewing previous report findings, and questioning representatives from relevant organizations such as the OAG and the consulting firm Sila Management Services Inc.

6.0 Conclusion

Based on the procedures completed, AES concludes that the NSRT's lack of appropriate financial records and documentation do not allow for the conduct of financial statement audits for the 2004, 2005 and 2006 fiscal years.

AES is unable to provide a conclusion on the nature and extent of due diligence taken in regard to the \$20,000 payment made for translation services during 2006, as no supporting documentation was located.

7.0 Findings

This section presents the findings after the completion of the interviews and the documentation review.

7.1 Extent of Available Financial Information

Findings from interviews:

Interview with Director of Corporate Services, Nunavut Region:

Based on discussions with the Director of Corporate Services, Nunavut Region, it was determined that all of the documentation left behind by the NSRT, in both Iqaluit and Rankin Inlet, had been sent to storage. The Director indicated that all of the boxes were sent to the attention of the Implementation Coordinator, Treaties and Aboriginal Government Sector. The Director indicated that he had no specific knowledge of the NSRT operations during the years under review.

Interview with Treaties and Aboriginal Government Sector:

Since the NSRT has reporting obligations to the Department via Treaties and Aboriginal Government Sector, individuals from that sector were selected for interview. The interviewees indicated that their knowledge of the NSRT prior to its re-establishment in 2006 was relatively limited. However, they suggested that AES speak to a consultant, from Sila Management Services Inc. The consultant had been contracted under the direction of the TAG Sector at HQ, in 2006 and again in 2007, to provide professional assistance to the NSRT in order to ensure the completion of the outstanding audits as well as reveal any administrative and financial management issues.

The interviewees further indicated that the NSRT had engaged the accounting firm of Masone and Company Ltd., headquartered in Calgary and having formerly had an office in Iqaluit, to complete their financial statements. It was offered by the interviewees that Masone and Company may have either an electronic copy or hard copy of NSRT's financial data, as they were engaged to prepare draft financial statements for the 2004, 2005 and 2006 fiscal years. We contacted Masone and Company but we were unable to obtain any information from them.

Correspondence with Consultant from Sila Management Services Inc.:

During our interview, the consultant suggested that we review the report she prepared for INAC which summarized her findings based on the work performed. In addition, it was recommended that we contact the OAG given the consultant's understanding that

financial records were sent directly to the OAG by Masone and Company Ltd. after the completion of the consultant's report.

Interview with the OAG:

Per discussion with the OAG, Masone and Company provided the OAG with financial files relevant to the NSRT. However, this documentation was limited to an incomplete set of bank statements, cheque stubs and invoices. The OAG concluded that the documentation obtained was not sufficient to conduct an audit of the 2004, 2005 and 2006 fiscal years, or provide justification for the \$20,000 disbursement for translation services.

Correspondence with Masone and Company Ltd.:

AES questioned Masone and Company Ltd., the accounting firm engaged to prepare the draft financial statements for the 2004, 2005 and 2006 fiscal years, about the extent, if any, of financial records held by their offices. Masone and Company indicated that the records remained on NSRT premises and that they did not have any financial records at their offices.

Findings from review of available documentation:

The Director of Corporate Services, Nunavut Region, was asked to provide all financial and related documentation for fiscal years 2004 through 2006 that were located in either Iqaluit or Rankin Inlet. A detailed review of the documentation sent by the Director was conducted by AES. While most of the financial documentation related to fiscal years prior to 2003, the boxes contained draft notice-to-reader financial statements, prepared by Masone and Company, for the 2004, 2005 and 2006 fiscal years. These financial statements were, however, supported only by an incomplete set of bank statements, cheque stubs and invoices. Of note was an invoice for services of Masone and Company for the set up of NSRT's financial data in Quickbooks.

In addition to the boxes sent from Nunavut, a report from Sila Management Services Inc. was provided to AES by Treaties and Aboriginal Government Sector. Per review of the report, Masone and Company was responsible for the preparation of the financial statements for the 2004, 2005 and 2006 fiscal years, including relevant notes and worksheets by March of 2007. The report further states that she was unable to view any of the financial data and as such, concluded that an audit could not be performed without obtaining all accounting records and supporting documentation from Masone and Company.

7.2 Evidence of Support for \$20,000 Payment for Translation Services

Findings from interviews:

Interview with Treaties and Aboriginal Government Sector:

The interviewees indicated that the \$20,000 payment for translation services was made to Kivallirmiut Translation, a company owned by John Patterk, the former Chief Administrative Office (CAO) of the NSRT. The interviewees noted that although INAC questioned the nature of the expenditure, no supporting documentation was obtained.

Findings from review of available documentation:

During the review of the correspondence file at INAC HQ, email correspondence between INAC and the NSRT regarding the \$20,000 payment for translation services was found. Within the correspondence, INAC officials questioned the nature of the expenditure and asked the NSRT to provide supporting documentation in order to indicate that the translation services were provided. It was noted that no supporting documentation was received by INAC.

Further, no supporting documentation regarding the \$20,000 payment for translation services was identified though AES's detailed review of documentation received from the Director of Corporate Services in Nunavut.

8.0 Recommendations

As described above, AES has undertaken various techniques in an effort to identify and assess financial records of the NSRT for the period 2004 through 2006. These efforts were not successful in identifying appropriate financial records in order to complete the audit.

While the Tribunal has not been active since approximately 2007, we understand it is being re-established. In addition to reinforcing the provisions of the *Act* regarding the NSRT's responsibility for maintaining financial records, we recommend that INAC take steps to further establish and clarify expectations regarding financial management and controls on a go-forward basis. Specifically, we recommend that INAC establishes and communicates clear expectations regarding the principles and practices of sound financial management and fiscal prudence, and that these expectations will be subject to regular monitoring for adequacy and effectiveness. These include:

Files and Filing System. These should be centrally located and well-organized for purposes of maintaining key financial records. This system should support financial

transactions and period-end balances including records related to all expenditures, approvals, bank reconciliations, and receipts, etc.

Financial Management Policies and Practices. These should address, at a minimum, key areas including:

- Accounting policies;
- Chart of accounts;
- Significant financial controls such as those related to segregation of duties, approval authorities and limits, and travel/hospitality/expense reimbursement;
- Preparation of financial statements; and
- Preparation of budgets and forecasts.

Engagement of a Trained Accountant. This individual would have the experience and academic background to provide the NSRT with advice and services on an ongoing basis and would act as the liaison with the OAG or other auditors as required.

Routine Monitoring. The NSRT would provide INAC with regular updates regarding the status of their financial management system/records including details regarding matters such as significant changes in personnel or transactions above a pre-determined threshold.

Appendix A: Audit Criteria

The following criteria were reference in the conduct of this engagement:

1. Financial information regarding the NSRT's activities during the 2004, 2005 and 2006 fiscal years was both prepared and maintained:
 - a. Transactions and balances are supported by evidence regarding their existence and valuation;
 - b. Financial records fully reflect the activities and financial position of the NSRT;
 - c. Financial records are organized as such that an auditor can assess the completeness and reliability of the financial statements.

2. Appropriate due diligence was taken in regards to the \$20,000 payment for translation services:
 - a. Supporting documentation is available in order to conclude that the services were provided per the agreed upon terms and conditions;
 - b. If payment was a non-arms-length transaction, the amount paid is of a reasonable amount for the services received.

3. Notwithstanding the above, criteria were also derived from Sub-section 114(4) of the *Nunavut Water and Nunavut Surface Rights Tribunal Act*.

Appendix B: List of Interviewees

Interviews were conducted during both the planning and examination phase of the audit. Below is the listing of the interviewees:

Name	Organization	Title
Monica Bossio	INAC	Manager, Treaties and Aboriginal Government Sector
Tamara Fast,	INAC	Implementation Coordinator, Treaties and Aboriginal Government Sector
Gerard Crocker	INAC	Director Corporate Services, Nunavut Region
Vivianne Leblanc	INAC	Project Coordinator, Treaties and Aboriginal Government Sector
Jennifer Praamsma	INAC	Former Manager, Treaties and Aboriginal Government Sector
Brenda Casella	INAC	Former Manager, Treaties and Aboriginal Government Sector
Robbin Sinclair-Chenier	Sila Management Services Inc.	Consultant
John Apt	OAG	Principal, Office of Nunavut
Anthony Masone	Masone and Company Ltd.	Principal

Appendix C: List of Financial Documentation Located

Below is a listing of the limited financial reporting, accounting records, and supporting documentation made available during the conduct of the audit:

- Nunavut Surface Rights Tribunal's Operations and Administration Manual;
- Draft financial statements for the 2004, 2005 and 2006 fiscal years, prepared by Masone and Company Ltd. Attached to these financial statements were questions from Masone and Company Ltd. regarding the nature of material transactions;
- Incomplete set of bank statements, cheque stubs and invoices.¹

¹ A few bank statements, certain invoices and cheque stubs for the 2004 and 2006 fiscal years were located. Per discussion with the OAG, they obtained a few invoices and a bank statement from Masone and Company Inc.; however, the documentation was incomplete.