Indigenous Services Canada | Services aux Autochtones Canada

Financial Reporting Requirements

Roadshow 2024

Salona Gounden

Canada

Context

- The purpose of the Consolidated Audited Financial Statements is to reconcile funding provided against eligible expenditures

- It is also used to assess the financial position with respect to program delivery, health/risk.
  - ➢ Conduct a financial analysis (Strength of financial position)
  - ➢ Determine risk to program delivery.
  - ➢ Review Auditor comments.

- Audited Financial Statements are due on July 29th each year or 120 days after the recipient's fiscal year end

What is Required?

- Audited Consolidated Financial Statements (ACFS), approved by Chief and Council. This includes:

1. Consolidated Audited Financial Statements
2. Schedules of Remuneration (Chief & Councilors & Senior Managers)
3. Schedule of Programs/Services/Activities/Projects Revenues and Expenditures

   - ISC has a 90 day service standard to complete the detailed review of the ACFS
   - Program officers may contact recipients regarding compliance reviews, program reporting, recovery or reimbursements adjustments. This may occur under separate cover from the Financial Statement Review process.

Schedule of Programs/Services/Activities/Projects Revenues and Expenditures (ANNEX A)

- Each ISC Revenue by **program code** must be reported separately, including capital and housing projects.

- Best practice is to include CPMS/ICMS # of Capital Projects on the schedules for reconciliation purposes.

- Disclose **revenues/funding** received by all sources for each ISC funded activity/program**.**

- Expenditures are **detailed by line object** on accrual basis. Special attention to be given to Services such as Social Development and Education.

- **SET, FLEX, FIXED,** and **BLOCK** funding and matching expenditures must be presented separately.

- **Reasons for Non-Acceptance:**

- ***If Program Schedules are not presented in the format outlined above the Financial Statements will be rejected.***

Covid-19 related funding

How to present Covid-19 related funding and expenses in the Program Schedules:

- Recipients can show all Covid-19 related funding on one program schedule i.e. Emergency Management, as long as revenues are broken down by program area (funding sources) and expenses are broken down by line object, even if the expenses are not specifically traceable to each revenue source

And / Or

- Any Covid-19 'top' up funding provided i.e. IA or O&M, can be presented in their respective IA/O&M program schedule. Again revenues should be broken out and expenses should be by line object

Types of Funding:

SET Contribution Funding

- **SET** funding is annual targeted contribution funding
- Unexpended and/or ineligible SET funding cannot be retained or deferred to the next year(s).
- ISC uses the expenditures reported in Annex A schedules to determine if there are any Audit recoveries and reimbursements. Can include expenditures in April of the following year in the review if funded by an advance.
- ISC may adjust identified recoveries and reimbursements if additional information is provided.
- All deficits are the responsibility of the recipient except for Reimbursable Social Assistance such as: Basic Needs, Child Out of Parental Home Allowance, Maintenance, Institutional Care – Type II, Adult Foster Care

FIXED Contribution Funding

- **FIXED** Funding is an annual targeted contribution.

- Unexpended FIXED funding is subject to recovery by ISC.

- The recipient may Carry-Over Unexpended Funding (if results not fully achieved) if:

➢ Progress/results achieved at March 31, meets the programs nationally approved threshold or definition of ‘all delivery requirements have been met’ (i.e. could be 80-85% completed)

➢ The ISC program officer is confident the recipient is; not at risk of default, has financial management and governance capacity to track and account for unexpended funding, there is the will and technical ability to complete the planned activity.

➢ If there are delays or issues, it is not due to gross mismanagement by the recipient i.e. due to Covid-19

➢ Approval of unexpended funding is required to support the recipients cash management needs

➢ Approval of the unexpended funding is required to avoid further delays, service disruption or mitigate health and safety concerns.

FIXED Contribution Funding (cont….)

- The recipient may Carry-Over Unexpended Funding (if results achieved and savings realized)
- Can retain unexpended funding provided 100% of agreed upon delivery requirements have been met if:

➢ Unexpended funding <u>is not</u> to be used for purposes consistent with the corresponding fixed program objectives, a plan for unexpended funding must be provided in writing within 120 days of the end of the agreement

➢ Plan must sufficiently outline the intended purpose and outline activities to be undertaken. Must be agreed in writing by ISC

➢ Unexpended funding must be spent during the fiscal year following the end of the agreement or project completion.

➢ Unexpended funding can be used to support any ISC program or to support the activities in a departmentally approved plan i.e. MAP

➢ Unexpended funds can not be used to cover deficits in programs funded by other government departments

- Expenditures must be eligible

Flexible (FLEX) Contribution Funding

- **Flexible** (FLEX) Funding is a multi-year targeted Contribution funding.
- Unexpended FLEX funding may be retained and used by the recipient in a subsequent Fiscal Year(s), if conditions specified in the Agreement are met, until the earlier of the end of that program, service, activity or project or the end of the Funding Agreement, after which any surpluses will be recovered by ISC.
- ISC can amend the end date of the program service or activity where planned work has not been completed. Can not be done retroactively, must be done before March 31st
- If the Agreement date ends before the project, ISC can amend the Agreement end date or issue a waiver to allow the unexpended funds to be moved between agreements. Can not be done retroactively, must be done before March 31st
- Prior year Unexpended FLEX Funding must be reported in the ACFS and its schedules.
- All deficits are the responsibility of the recipient.

BLOCK Contribution Funding

- BLOCK Funding is a multi-year Contribution for a group of programs, services and/activities/or projects
- Recipient will receive a lump sum of funds to run their programs.
- Recipient may re-allocate the funds amongst Block Funded program/activities to meet their needs.
- Net re-allocation among Block funded programs must net out to zero and must be clearly traceable.
- Aggregate surplus/deficit is carried forward until the end of the agreement
- Aggregate deficit at the end of the Funding Agreement is the responsibility of the Recipient.
- Aggregate surpluses may be retained by the recipient after the end of the agreement if:
    - ➢ Surpluses will be used within the new block services, or
    - ➢ The recipient sends a plan to ISC to use the surplus in a different program outside block services, and ISC must accept the plan in writing

NFR 10-Year Grant

- Recipients who are in a NFR 10-Year Grant from 2019-20 and subsequent years, will no longer be required to provide individual program schedules on 10-Year Grant program funding.

Timelines

February:

- ➢ Notification of Auditor letters are sent out to recipients to identify their auditor and is due by March 15th to ISC
- ➢ Written permission is required for ISC to contact the recipient's auditor directly.

- May:

ISC sends out information packages to recipients and/or their auditors each fiscal year. This packages includes:

- ➢ Funding Confirmation
- ➢ Checklist for ISC audit acceptance
- ➢ Trust fund balances
- ➢ Guaranteed loan balances
- ➢ List of funded Capital projects
- ➢ List of PAYE (Payables At Year End)

Financial Ratios:

- ISC analysis of the Statement of Financial Position and Statement of Operations helps generate the following financial ratios:

- **The Liquidity ratio** calculates whether the recipient has assets sufficient to cover liabilities. It is a measure of short-term financial health.
  - Current Assets / Current Liabilities < 0.90 is unfavourable

- **The Sustainability Ratio** calculates the Recipient's ability to service operational and capital obligations over the long term. It is a measure of longer term financial health.
  - Total Financial Assets / Total Liabilities <0.50 is unfavourable

- **The Working Capital Ratio** tests to see if current working capital deficiency can be covered with one month's revenues.
  - Current Assets - Current Liabilities./ Total Rev.<-0.08 is unfavourable

ISC Financial Statement Review (FSR) Letter

- Recipients should review their last ISC FSR letter and report. This is a good place to start for the next financial statements
- FSR Letter addresses audit opinion, and the recipient's financial ratio results.(working capital, liquidity and sustainability). The purpose is to determine if program delivery risk is low, medium or high.
- The letter summarizes surplus recoveries, reimbursements, and deferred revenues.
- The letter includes a Detailed Financial Report.
- The letter includes additional Annexes and worksheets.
- If you do not have a copy of your last review letter and report please contact your FSO

Previous Financial Statement Review Observations

- Improve details within the Notes to Financial Statements; Cash, A/R, A/P, Deferred Revenue, other.
- Include Budget figures.
- Include Management Responsibility Letter.
- Two signatures on the Statement of Financial Position.
- Management Letter (Internal Controls)
- Departure from GAAP principles regarding the registration and evaluation of Capital Assets.
- Auditor inability to determine revenue from Investments and GBEs, resulting in inaccurate consolidation of Financial Statements.
- Mixing of Funding Types: Set ,Fixed or Flex should be recorded in separate schedules.
- Expenses should be recorded with a schedule by line object.

Questions?

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