

**Chapter 9  
Accounting and Control of Funds**

- 9.1 POLICY STATEMENTS**
  - 9.1.1 Authority for Funds
  - 9.1.2 Cash Management
  - 9.1.3 Revolving/Reserve Funds
  - 9.1.4 Regulated Funds
- 9.2 INTRODUCTION**
  - 9.2.1 General
  - 9.2.2 Cash Management
- 9.3 REVOLVING FUNDS CONCEPT**
  - 9.3.1 Nature of a Revolving Fund
  - 9.3.2 Operation of a Fund
- 9.4 PROCEDURES APPLICABLE TO ALL FUNDS**
  - 9.4.1 General
  - 9.4.2 Creation of a Fund
  - 9.4.3 Cash Management
  - 9.4.4 Audit
  - 9.4.5 Investment
- 9.5 REVOLVING FUNDS**
  - 9.5.1 Nature of Revolving Fund
  - 9.5.2 Criteria for Revolving Funds
  - 9.5.3 Record-Keeping Requirements
- 9.6 REPORTING REQUIREMENTS**
  - 9.6.1 Public Accounts
  - 9.6.2 Estimates of Expenditures
- 9.7 REGULATED FUNDS**
  - 9.7.1 Nature of Regulated Funds
  - 9.7.2 Criteria for Regulated Funds
  - 9.7.3 Record-Keeping and Financial Control
  - 9.7.4 Deposit Accounts
  - 9.7.5 Other Regulated Funds
  - 9.7.6 Reporting Requirements

## **9.1 POLICY STATEMENTS**

### **9.1.1 Authority for Funds**

Unless specifically provided for in legislation, separate funds should be established only when an operation cannot be adequately accounted for within the general Yukon Consolidated Revenue Fund, and only then with the approval of Management Board.

### **9.1.2 Cash Management**

All funds should be operated within the central collection and payment systems of the Government unless specifically exempted, in writing, by the Deputy Minister of the Department of Finance.

### **9.1.3 Revolving/Reserve Funds**

Revolving/reserve funds accounts should be kept on an accrual basis so that expenditures and revenues can be matched. Financial statements for all revolving/reserve funds should be prepared each accounting period in accordance with generally accepted accounting principles and copies of these statements should be filed with the Deputy Minister of the Department of Finance.

### **9.1.4 Regulated Funds**

Regulated funds should have accounts kept, and financial statements prepared, based on the accrual method so that all assets and liabilities are known and all revenues and expenditures disclosed.

## **9.2 INTRODUCTION**

### **9.2.1 General**

This chapter deals with those funds which are not part of the general consolidated Revenue Fund. Controls outlined in other chapters of this manual also apply to these funds and this chapter therefore is concerned primarily with those practices that are different.

### **9.2.2 Cash Management**

In order to maximize investment revenue all surplus funds should be invested through the central cash management system of the Department of Finance.

Interest earned in this pooling of surplus funds will be considered for allocation to the appropriate funds.

## **9.3 REVOLVING FUNDS CONCEPT**

### **9.3.1 Nature of a Revolving Fund**

A Revolving fund is a continuing and non-lapsing authorization by the Legislative Assembly to make payments out of the Consolidated Revenue Fund for capital acquisitions or asset purchases. It is an authorization to draw on the Consolidated Revenue Fund, not a physical segregation of cash.

A revolving fund's accumulated net expenditures from the Consolidated Revenue fund and the value of any other assets placed at the disposal of the revolving fund less obligations assumed by the fund are not to exceed at any time the amount authorized by the Legislative Assembly. Revolving funds differ from normal appropriations in that

- legislative authority continues from year-to-year until amended, and the authority provides for the spending of fund receipts for the purposes authorized by the legislation.

The financing of a revolving fund's activities is similar to that of a commercial-type enterprise. The fund is financed by advances from the General Revenue Fund. An upper limit to the amount of the advances that may be outstanding at any point in time is specified by statute. Advances are used to buy the goods and services needed to provide the services for which the fund is created. Users are charged for the cost of providing services they receive. Recoveries should be sufficient to cover direct costs, incremental overhead and a provision for depreciation. Any received is deposited in the Consolidated Revenue Fund and applied to reduce the amount advanced to the revolving fund. The balance of the advance at any point in time will be the difference between the total disbursements made on behalf of the revolving fund, and the costs recovered from the beneficiaries of services.

Advances are used for various working capital purposes. There will be no permanent call upon the resources of the government unless the fund does not recover the costs of its services, in which case an appropriation is required to write-off the portion of the advance that is not recovered unless it is carried forward. There is no authority in revolving fund legislation to write-off accounts. Conversely, if the fund recovers more than its cost, this excess is available to finance working capital, unless taken in as general government revenue. The Cabinet, may direct a revolving fund to remit all or a portion of its earnings to general revenue.

**9.3.2 Operation of a Fund**

Revolving funds provide goods or services internal to a government department, other government departments and the general public, or some combination of the above.

## **9.4 PROCEDURES APPLICABLE TO ALL FUNDS**

### **9.4.1 General**

A number of procedures are applicable to all funds. These general procedures ensure that the necessary authority exist for the funds and that the Deputy Minister of Finance is made aware of all funds established. All funds constitute public money and therefore fall under the authority of the Financial Administration Act unless specifically exempt under appropriate legislation.

Departments, agencies, boards and commissions should be aware that the establishment of funds may be in conflict with some other government policy. The nature and conditions specified for the fund may not fall under territorial jurisdiction, or the territory may not have the ability to fulfil the conditions of the fund. Authorities should be carefully examined and clarified before establishing any funds.

Once established, the Legislature makes no further appropriations to these funds. The funds are not subject to normal budgetary controls by the Legislature as payments can only be specified by the relevant authority. The establishment of numerous funds is not in harmony with the concept of annual legislative review. Legislative control over fund revenues and expenditures is not as strong and therefore funds should be established only when normal practices are clearly inappropriate. The following procedures are applicable to all types of funds.

### **9.4.2 Creation of a Fund**

Funds must not be established without Management Board approval and, often, legislative authority. When legislation allows a minister, board, agency or commission to accept funds for specified purposes by gift, will or bequest, notice should be given to the Deputy Minister of Finance who will ensure that appropriate banking, accounting and other financial arrangements are in place to administer the fund.

When legislation does not exist for establishment of a fund, Management Board approval must be obtained before any monies can be accepted.

### **9.4.3 Cash Management**

All funds should be operated within the central collection and payment systems unless exempted by the Deputy Minister of the Department of Finance. If exempt, the procedures and controls described in Chapter 5, Accounting and Control of Expenditures, and Chapter 7, Accounting and Control of Revenue and Accounts Receivable, should be adhered to.

**9.4.4 Audit**

All funds are subject to examination by the Deputy Head of the Department of Finance, Internal Auditor, the Auditor General of Canada and such other authority as may be prescribed by Cabinet.

**9.4.5 Investment**

Where appropriate, surplus money should be invested through the central cash management system of the Department of Finance.

## **9.5 REVOLVING FUNDS**

### **9.5.1 Nature of Revolving Fund**

A revolving fund represents a statutory authority to draw monies from the Consolidated Revenue Fund for the purpose of financing the provision of goods and services to various users.

### **9.5.2 Criteria for Revolving Funds**

Revolving funds are used to finance the provision of certain services. These may be services to departments other than the one providing the service, other branched within the department providing the service, government agencies or, infrequently, the public at large. Each revolving fund requires legislative authority.

Examples of situations when a revolving fund may be appropriate include:

- The financing of large inventories of materials, supplies and equipment, which will subsequently be sold or used in government programs.
- The financing of services such as warehousing and distribution, maintenance and repair or other services where a common need is identified.

### **9.5.3 Record-Keeping Requirements**

Revolving funds are accounted for as separate accounting entities. The accounts should be kept on an accrual basis so that expenditures can be related to revenues and assets made subject to good accounting control.

Departments administering a revolving fund should keep adequate records and implement proper procedures to ensure that:

- Expenditures are made only for goods and services required to accomplish the objectives of the fund,
- Rates charged for services provided are related to the costs of providing them, and
- The statutory limit for the advance from the General Revenue Fund is not exceeded.

To help accomplish these objectives the record-keeping guidelines outlined in Chapter 3 of this manual should be followed. More specifically, revolving funds require:



**9.5.3 (Continued)**

- A general ledger including all asset, liability and operating accounts,
- A detailed accounts receivable subsidiary ledger with financial claims on third parties segregated from financial claims on government departments. these subsidiary ledgers should be reconciled to the general ledger control account at the end of each accounting period,
- An aged accounts receivable trial balance produced monthly from the detailed records for review and follow-up of overdue accounts,
- Detailed inventory records segregating inventory held for sale to third parties and inventories held for government departments. These inventory records should be reconciled to periodic physical counts and, at the end of each accounting period, to the general ledger balance,
- Detailed fixed asset records. These inventory records should be reconciled to periodic physical counts and to the general ledger balance,
- Budgets to control expenditures and determine rates charged.

## **9.6 REPORTING REQUIREMENTS**

### **9.6.1 Public Accounts**

Departments administering a revolving fund are responsible for preparing the following financial statements at the end of each fiscal year:

- Statement of financial position,
- Statement of results of operations,
- Statement of changes in financial position.

These statements must be prepared in accordance with generally-accepted accounting principles applied on a consistent basis and are subject to audit.

### **9.6.2 Estimates of Expenditures**

Advances to a revolving fund are designated as statutory budgetary expenditures and consequently do not require annual approval by the Legislative Assembly, but can be included in the Estimates as an information item.

For a revolving fund, the information for a particular year might include estimates of the following:

- Total revenue,
- Total expenditures, with identification of depreciation expense, disbursements, and acquisition of fixed assets,
- Profit or loss,
- Net cash requirements or surplus,
- Balance of the advance from the General Revenue fund at the beginning and the end of the year.

The estimates of revenue, expenditures and profit or loss should be presented on the accrual basis of accounting. A presentation showing net cash requirements should also be presented in order to arrive at the estimated statutory expenditure which is on a cash basis. The Estimates of Expenditure should also include a summary of person-year authorization.

## **9.7 REGULATED FUNDS**

### **9.7.1 Nature of Regulated Funds**

There are two main categories of regulated funds, i.e. trust funds and special purpose funds. Trust and special purpose funds are distinguished from each other on the basis of the source of contributions to them. If the fund receives money from the public through contribution, will or bequest, it is considered a trust fund. If the money originates from the Legislature through an apportionment of receipts or by annual legislative appropriation, the fund is considered a special purpose fund.

Some regulated funds include both types of receipts. It is difficult to classify these funds under either category because they meet both sets of requirements. In this case, each type of receipt should be accounted for separately as part of the total fund and disclosed separately on reports.

#### **TRUST FUNDS**

There are a number of categories of trust funds:

##### **General Trusts**

These are funds that involve a trust relationship between a settlor, trustee and beneficiary pursuant to legislation, settlement, will or agreement.

##### **Sinking Fund Trust**

These are funds managed by the Deputy Minister of the Department of Finance for the purpose of retiring long-term debt.

##### **Security Deposits**

These are funds held on deposit as security against damage or loss to government property and contract holdbacks to ensure due performance under contract.

##### **Deposit Accounts**

These are cash, securities or other valuables deposited with the Government on behalf of: Patients, inmates or students of Territorial institutions. Examples - Correctional Institute Trust Accounts, Student Trust Accounts, etc.

Individuals or companies who want to make advances so as to obtain credit in connection with fee charges.

**9.7.1 (Continued)**

Individuals or companies who pay estimated charges until such time as the final amount is determined.

**SPECIAL PURPOSE FUNDS**

These are funds which are established by legislation when money is received either by appropriation or an apportionment of receipts. When funds are received by annual appropriation, any part of the appropriated funds not spent by the end of the fiscal year lapses.

**9.7.2 Criteria for Regulated Funds**

The description of regulated funds discussed earlier identifies the sources of monies for establishing such funds. Legislative authority through an Act, or by regulation, or terms and conditions approved by Management Board can establish a fund and specify the purposes for which monies received by the fund can be used. Regulated funds should only be established when there is no practical alternative.

**9.7.3 Record-Keeping and Financial Control**

Regulated funds must be accounted for as separate entities. The nature of the fund will dictate the records required to be maintained for the fund.

**9.7.4 Deposit Accounts**

To ensure proper control over these funds, the records should include a subsidiary ledger and control accounts as required. If the department is required to pay interest on funds deposited, records should be maintained to show the interest accruing to each depositor. Financial controls over these funds should include:

- Monthly reconciliations between the subsidiary ledger and control accounts, and thorough review thereof by the fund administrator,
- Monthly bank reconciliations and approval thereof, if a separate bank account is being used,
- Monthly review by senior management to ensure that all deposits are proper and are subsequently cleared.

**9.7.5 Other Regulated Funds**

Other regulated funds should be accounted for as separate entities and the accounts kept on an accrual basis. Fund administrators are

**9.7.5 (Continued)**

responsible for ensuring that a proper set of records are established to ensure that:

- Accounts are maintained on an accrual basis,
- Proper information can be provided to facilitate legislative or agreement requirements,
- Appropriate reporting requirements can be met,
- Audit evidence necessary to express an opinion on the financial statements can be obtained by the Auditor General.

Records should include:

- General ledger,
- Books of original entry,
- Subsidiary records and ledgers.

In most cases the central financial information system should be used. However, the information supplied by the central system may not always be adequate to fulfill the requirements of the trust. In such cases the fund administrator should ensure that supplementary records are maintained to meet the requirements of the trust or special-purpose fund.

**9.7.6 Reporting Requirements**

The fund administrator is responsible for preparing the appropriate financial statements of the fund for each reporting period. The reporting period is on a fiscal year basis except when specified otherwise by legislation or agreement. These financial statements should include a:

- Statement of financial position,
- Statement of results of operations,
- Statement of changes in financial position.

The financial statements are to be prepared in accordance with the generally-accepted accounting principles applied on a consistent basis and shall be subject to audit.

Depending upon the nature of the trust, administering body, department or agency, the financial information may be presented within the body of other financial statements which are subject to the criteria established above.

When the regulated fund is a security or trust deposit, financial statements may not be an appropriate method of relaying fund information in the Public Accounts. The Deputy Head of the Department of Finance will advise on the types of information needed for presentation in the Public Accounts.