

Agriculture and Food

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Executive summary

Facing increasing demands on limited government resources, Members of the Legislative Assembly (MLAs) and the public need useful information to understand and assess the performance of government organizations. Annual financial statements demonstrate accountability for resources and provide useful performance information.

If government organizations do not follow rigorous accounting rules, there is a risk that their annual financial statements may misstate their annual performance. Incorrect financial statements increase the risk that MLAs and the public will form incorrect conclusions about the organization's financial performance.

The Department prepared and made public incorrect financial statements for two of its special purpose funds (i.e., the Agri-Food Innovation Fund and the Saskatchewan Agricultural Stabilization Fund). The errors in the financial statements result from the Department incorrectly recording advances received from the Saskatchewan General Revenue Fund. Both of these special purpose funds receive advances from the Governments of Canada and Saskatchewan to pay program costs.

The Department incorrectly records advances received from Saskatchewan as revenue even though the Department has not yet incurred program costs. In our opinion, this accounting does not follow the recommendations of The Canadian Institute of Chartered Accountants (CICA) and is inconsistent with the way the Department accounts for advances received from Canada.

We think the Department should record the advances received from Saskatchewan as a liability of the funds until the Department incurs related program costs.

Also, we continue to recommend that the Milk Control Board should develop written policies and procedures for preparing accurate financial information.

Introduction

The Department of Agriculture and Food's mandate is to foster, in partnership with the industry, a commercially viable, self-sufficient, and sustainable Saskatchewan agricultural sector. In carrying out its mandate, the Department administers and is responsible for several special purpose funds and Crown agencies.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for:

- ◆ the following special purpose funds and Crown agencies for the year ended March 31, 2000, which were not completed in time to include in our 2000 Fall Report – Volume 3:
 - Agri-Food Equity Fund,
 - Agri-Food Innovation Fund,
 - Beef Development Board,
 - Horned Cattle Fund, and
 - Saskatchewan Agricultural Stabilization Fund;
- ◆ Saskatchewan Canola Development Commission for the year ended July 31, 2000;
- ◆ Sask Pork for the year ended December 31, 2000; and
- ◆ Milk Control Board for the year ended December 31, 2000

Our Office worked with the following appointed auditors:

- ◆ Deloitte & Touche
 - Sask Pork; and
- ◆ KPMG
 - Saskatchewan Agricultural Stabilization Fund.

We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at <http://www.auditor.sk.ca/rrd.html>). Our Office and the appointed auditors formed the opinions set out below.

In our opinion, for the audits we have completed:

- ◆ **the financial statements of the Department's special purpose funds and Crown agencies are reliable, except for the Agri-Food Innovation Fund and the Saskatchewan Agricultural Stabilization Fund. In KPMG's opinion, the Saskatchewan Agricultural Stabilization Fund's financial statements are reliable.**
- ◆ **the Department and its special purpose funds and Crown agencies had adequate rules and procedures to safeguard and control their assets, except for the Milk Control Board.**
- ◆ **the Department and its special purpose funds and Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

We did not rely on KPMG's opinion on the Saskatchewan Agricultural Stabilization Fund's financial statements. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the report of an appointed auditor. Our additional work consisted of reviewing the agreements between the Government of Canada (Canada) and the Government of Saskatchewan (Saskatchewan) and discussion with the Department's management.

Importance of financial statements

The Government faces increasing demands on its limited resources. Members of the Legislative Assembly (MLAs) and the public need useful information to understand and assess the performance of government organizations. Financial statements are a key way for an organization to demonstrate its accountability for the public resources entrusted to it, and to provide information useful in evaluating its annual performance. To understand and assess performance, MLAs and the public need government organizations to follow rigorous accounting rules that report their performance in a consistent and comparable manner.

When government organizations do not follow rigorous accounting rules, they increase the risk that their annual financial statements may misstate

their annual performance. Incorrect financial statements increase the risk that MLAs and the public will form incorrect conclusions about the organization's financial performance.

Agri-Food Innovation Fund

The Department of Agriculture and Food administers the Agri-Food Innovation Fund (Fund). The purpose of the Fund is to enhance the diversification of the agri-food industry, support research and development, and encourage the creation of economic opportunities and jobs.

The Fund's financial statements for the year ended March 31, 2000 report net financial assets of \$12.8 million.

Reliability of the financial statements

The Fund's 2000 financial statements are incorrect. The financial statements understate the Fund's liabilities (what it owes to others) by \$8.4 million and overstate the Fund's net financial assets (surplus to date) by \$8.4 million. This gives readers of the financial statements the wrong message. The message given is that the Fund has extra money on hand that is no longer required to pay for future program costs. In fact, the \$8.4 million is required to pay for future program costs.

Canada and Saskatchewan advance money to the Fund to pay for program costs. The laws governing the Fund and the agreement between Canada and Saskatchewan require that all money paid into the Fund can only be used for the purposes of the Fund. Also, the Fund must return any money received and not used to pay for program costs to Canada and Saskatchewan at the end of the program. The Fund operates on a break-even basis except for the interest income earned on advances, which it is allowed to retain.

The advances should be recorded as liabilities (amounts owed back to Canada and Saskatchewan) until the Department incurs program costs. When program costs are incurred, the Department should remove an equal amount from the liabilities of the Fund and record it as revenue to offset the program costs.

The errors in the financial statements result from the Department incorrectly recording advances from Saskatchewan. The Department correctly records advances from Canada as liabilities and later as revenue after it has incurred program costs. This accounting follows the accounting recommendations of The Canadian Institute of Chartered Accountants (CICA). However, the Department incorrectly records advances from Saskatchewan as revenue even though it has not yet incurred program costs.

For example, in prior years the Fund received \$28 million in advances from Saskatchewan, which it recorded as revenue. However, to date the Fund has only incurred \$19.6 million in related program costs. Therefore, it appears as if the Fund has made an \$8.4 million (\$28 - \$19.6) surplus to date. In reality the \$8.4 million is not surplus because it is required to pay for future program costs. In our opinion, this accounting does not follow the accounting recommendations of the CICA.

We also reported this matter in our 2000 Fall Report – Volume 3.

As stated earlier, the Department should record money received in advance as a liability and later as revenue when program costs are incurred. Also, because the Fund operates on a break-even basis for the money received from Canada and Saskatchewan, the only net financial assets of the Fund should be interest earnings on advances.

- 1. We continue to recommend the Department should record the money received from the Saskatchewan General Revenue Fund (GRF) as a liability of the Agri-Food Innovation Fund until the Department incurs related program costs.**

The Department thinks that because the Fund is a provincial government entity, there are no external restrictions on the use of the money received from Saskatchewan. Therefore, the Department thinks it is appropriate to record money received from Canada and Saskatchewan differently.

We disagree. We think the agreement between Canada and Saskatchewan restricts the use of the money in the Fund. Also, we think it is irrelevant whether both the Fund and the GRF are part of the provincial government. The GRF has provided money to the Fund for specific purposes as set out in the agreement between Canada and

Saskatchewan. Until the Department spends money for those purposes the Fund has a liability to the GRF.

Saskatchewan Agricultural Stabilization Fund

The Department of Agriculture and Food (Department) administers the Saskatchewan Agricultural Stabilization Fund (Fund). The Fund reports the transactions of the following six programs in separate accounts:

- The New Crops Insurance Program
- The Big Game Damage Compensation Program
- The Waterfowl Damage Compensation Program
- The Agricultural Income Disaster Assistance Program
- The Unseeded Acreage Benefit Program
- Canada-Saskatchewan Adjustment Program

The New Crops Insurance Program provides assistance to the Saskatchewan Crop Insurance Corporation for insurance losses on new or developmental crops.

The Big Game Damage Compensation Program provides assistance to Saskatchewan farmers for losses to field crops and stacked hay resulting from damage caused by big game.

The Waterfowl Damage Compensation Program provides assistance to Saskatchewan farmers for losses to field crops resulting from damage caused by waterfowl.

The Agricultural Income Disaster Assistance Program (AIDA) provided assistance to Saskatchewan farmers experiencing farm income shortfalls for the 1998 and 1999 calendar years.

The Unseeded Acreage Benefit Program provided a one-time payment to producers who do not participate in the insurance program provided by Saskatchewan Crop Insurance Corporation and who were unable to seed on or before June 25, 1999 due to excessive spring moisture conditions for the 1999-2000 crop year.

The Canada-Saskatchewan Adjustment Program (CSAP) provided a one-time payment to farmers as completion of the adjustment to the

elimination of the transportation subsidies and the elimination of the pooling of Canadian Wheat Board seaway costs.

Canada and Saskatchewan agreed to share the costs of the above programs. Canada and Saskatchewan share the costs of these programs equally except for AIDA and CSAP. For AIDA, Canada pays 60% of the costs and Saskatchewan pays 40% of the costs. For CSAP, Canada pays 70% of the costs and Saskatchewan pays 30% of the costs. Saskatchewan administers all the programs except AIDA. Canada administers AIDA.

The laws governing these programs and the agreements between Canada and Saskatchewan require that all money paid into the Fund for these programs can only be used for the purposes of the programs. Also, the Department must return any money received and not used to pay for program costs to Canada and Saskatchewan at the end of the programs. The Fund operates on a break-even basis except for the interest income earned on advances, which it is allowed to retain.

The Fund's financial statements for the year ended March 31, 2000 report revenues of \$311.6 million, expenses of \$379.1 million and net assets of \$27.1 million.

Reliability of the financial statements

The Fund's 2000 financial statements are incorrect. The financial statements understate revenue and overstate the Fund's annual deficit (loss) for 2000 by \$70.0 million. Also the financial statements understate the Fund's liabilities (what it owes to others) by \$22.3 million and overstate the Fund's net assets (surplus to date) by \$22.3 million. This gives readers of the financial statements the wrong message. The Fund's financial statements make it appear that expenses exceeded revenue by \$70 million. In fact, revenue is \$70 million higher. Also, the Fund reports more net assets than it actually has.

The errors in the financial statements result from the Department incorrectly recording some revenue. The Department correctly records all money received from Canada. The Department records revenue equal to Canada's share of program costs. The Department records money received from Canada in excess of its share of program costs as a liability

owing to Canada until the Department incurs costs under the program. This accounting follows the accounting recommendations of the CICA. However, the Department incorrectly records money received from Saskatchewan. It records the money received as revenue immediately regardless of when program costs are incurred.

For example, in 1999 the Fund received \$140 million from Saskatchewan to pay for the AIDA program costs for 1999 and 2000. In 1999, the Department recorded the entire \$140 million as revenue of the Fund. However, the Department only incurred costs of \$70 million for that program in 1999. As a result, the Fund's 1999 financial statements make it look like there is \$70 million more revenue than expenses. The reality is that \$70 million was received to pay for future costs and is not revenue of 1999. In our opinion, this accounting does not follow the accounting recommendations of the CICA. The 2000 financial statements do not show the \$70 million, received in 1999 to pay for program costs incurred in 2000, as revenue.

We reported in our 2000 Spring Report that the Fund's 1999 financial statements overstated revenue by \$72.3 million and understated liabilities by an equal amount. We also reported the Department received money from Saskatchewan in excess of program costs for 1998 of \$13.2 million and 1997 of \$6.8 million and incorrectly recorded this money as revenue instead of a liability in those years.

As stated earlier, the Department should record money received in advance as a liability and later as revenue when program costs are incurred. Also, because the Fund operates on a break-even basis for the money received from Canada and Saskatchewan, the only net assets of the Fund should be interest earnings on advances.

- 2. We continue to recommend the Department should record the money received from the Saskatchewan General Revenue Fund (GRF) as a liability of the Saskatchewan Agricultural Stabilization Fund until the Department incurs related program costs.**

The Department thinks that because the Fund is a provincial government entity, there are no external restrictions on the use of the money received

from Saskatchewan. Therefore, the Department thinks it is appropriate to record money received from Canada and Saskatchewan differently.

We disagree. We think the agreements between Canada and Saskatchewan restrict the use of the money in the Fund. Also, we think it is irrelevant that both the Fund and the GRF are part of the provincial government. The GRF has provided money to the Fund for specific projects as set out in the agreements between Canada and Saskatchewan. Until the Department spends money for those programs, the Fund has a liability to the GRF.

Milk Control Board

The purpose of the Milk Control Board is to control and regulate the marketing of milk in the province. To do so, the Board purchases milk from producers and sells it to processors. Also, the Board manages a quota exchange where producers can buy or sell production quotas.

The Board had revenue and expense of \$121 million and held assets of \$7.5 million at December 31, 2000.

Written policies and procedures needed

The Board needs written policies and procedures to ensure the financial information it produces is complete and accurate.

We reported this matter in our 1998 Fall Report – Volume 2. In January 1999, the Standing Committee on Public Accounts concurred with our recommendation.

We continue to recommend that the Board should develop written policies and procedures for preparing accurate financial information.

Management told us that the Board has been working to develop a written policies and procedures manual outlining the Board's requirements for financial reporting. This will be completed by June 2001.