

# Crown Investments Corporation of Saskatchewan

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## Executive summary

Crown Investments Corporation of Saskatchewan (CIC) is the holding company for many of Saskatchewan's Crown corporations such as Saskatchewan Power Corporation (SaskPower), SaskEnergy Incorporated (SaskEnergy), and (Saskatchewan Telecommunications Holding Corporation (SaskTel). CIC is responsible for establishing the strategic direction for these corporations and for monitoring their performance. It is also responsible for managing a diverse portfolio of investments.

In this chapter, we report the results of the audit of CIC for the year ended December 31, 2000 and six other entities it controls. For each entity, we concluded that the financial statements are reliable, the systems of internal control are functioning adequately; and with one exception, the governing authorities have been complied with. The exception is that CIC did not obtain Order in Council approval before its subsidiary Saskatchewan Valley Potato Corporation acquired real property from Saskatchewan Water Corporation.

This chapter also describes matters related to the public accountability of CIC and its subsidiary Crown corporations.

We continue to recommend that CIC and its subsidiaries should give the Legislative Assembly a list of persons who received public money from them, or seek direction on alternate disclosure requirements from the Standing Committee on Crown Corporations (Crown Corporations Committee).

Also, we continue to recommend that the Government should change the law to:

- require subsidiaries of Crown corporations to obtain Order in Council approval before purchasing shares; and
- require Crown corporations and their subsidiaries to report the sale of shares to the Crown Corporations Committee within 90 days of the transaction.

## Introduction

Crown Investments Corporation of Saskatchewan (CIC) is the holding company for many of Saskatchewan's Crown corporations such as Saskatchewan Power Corporation (SaskPower), SaskEnergy Incorporated (SaskEnergy), and (Saskatchewan Telecommunications Holding Corporation (SaskTel). CIC is responsible for establishing the strategic direction for these corporations and for monitoring their performance. It is also responsible for managing a diverse portfolio of investments. Management of CIC advises CIC's Board of Directors about the entities under CIC's control. In turn, CIC's Board provides advice about these entities to Executive Council (Cabinet). A complete list of these entities is provided in Exhibit 1 at the end of this chapter.

In this chapter, we report on the following entities:

- ◆ CIC (includes CIC Industrial Interests Inc. (CIC III));
- ◆ CIC Pulp Ltd., which holds CIC's investment in Meadow Lake Pulp Limited Partnership;
- ◆ CIC Foods Inc., which holds CIC's investment in Centennial Foods Partnership;
- ◆ Genex Swine Group Inc., a swine genetics company;
- ◆ Saskatchewan Valley Potato Corporation (SVPC), a potato production and storage company;
- ◆ 10102875 Saskatchewan Ltd., which holds CIC's investment in Foragen Technologies Management Inc.; and
- ◆ Capital Pension Plan (Plan), a multi-employer pension plan.

CIC's *2000 Annual Report* contains three sets of financial statements. The first set shows CIC's financial results consolidated with those of its subsidiaries. The second set shows the financial results of activities of CIC, the legal entity. The third set shows the financial results of activities that CIC manages through its subsidiary CIC III.

The first (consolidated) set of financial statements shows CIC had revenue of \$3.2 billion in 2000, net income of \$293 million, and held assets of \$7.6 billion at December 31, 2000.

## Our audit conclusions and findings

Our Office worked with the following appointed auditors using the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view this report, see our website at <http://www.auditor.sk.ca/rrd.html>).

CIC	Deloitte & Touche
CIC Pulp Ltd.	Ernst & Young
CIC Foods Inc.	Ernst & Young
Genex Swine Group Inc.	PricewaterhouseCoopers
SVPC	KPMG
Capital Pension Plan	KPMG

For each of these entities, the appointed auditor and our Office formed the opinions below.

### In our opinion, for the year ended December 31, 2000:

- ◆ **the financial statements of these entities are reliable;**
- ◆ **these entities had adequate rules and procedures to safeguard and control their assets; and**
- ◆ **these entities complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except as described in this chapter.**

This chapter also describes matters related to the public accountability of CIC and its subsidiary Crown corporations.

CIC created 10102875 Saskatchewan Ltd. during 2000. We did not audit the company because it had not completed a full year of activity.

## Approval needed to acquire assets

CIC's subsidiary Saskatchewan Valley Potato Corporation acquired real property without obtaining Order in Council approval.

CIC's legislation requires it to obtain Order in Council approval before it acquires or sells real property for a price exceeding \$200,000. However, CIC's legislation does not explicitly state that CIC should obtain Order in Council approval before purchasing or selling real property through its subsidiaries.

In our opinion, a subsidiary of a parent corporation does not have greater powers than its parent. If a parent company could simply incorporate a subsidiary company to do something that the parent itself was not permitted to do, it would defeat the purpose of the Legislative Assembly imposing any limitations on the parent.

In June 2000, CIC obtained Order in Council approval for the purchase of approximately \$17 million of potato business assets (mainly real property) from Saskatchewan Water Corporation (Sask Water). CIC created a subsidiary, Saskatchewan Valley Potato Corporation (SVPC) to hold CIC's potato business assets.

In December 2000, SVPC purchased the remainder of Sask Water's potato business assets (mainly real property) valued at \$5 million without Order in Council approval. If CIC had acquired these assets directly from Sask Water, CIC's legislation would have required CIC to obtain Order in Council approval. Therefore, in our opinion, CIC should have obtained Order in Council approval for the purchase of real property that it acquired indirectly through its subsidiary, SVPC.

- 1. We recommend that the Government should clarify the law to require CIC and its Crown corporations to obtain Order in Council approval before purchasing or selling real property through a subsidiary.**

## **Public accountability information**

### **List of persons who received public money**

CIC and its subsidiaries did not give the Legislative Assembly a list of persons who received public money in 2000.

Public disclosure is important for three reasons. First, public disclosure serves to remind all government officials they are spending money that is

entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures those who spend public money know their use of that money will be public. Third, public disclosure ensures the public knows who has received their money.

We believe that Members of the Legislative Assembly (MLAs) have the following three objectives for requiring public disclosure of those persons who receive money from a government agency (e.g., department, Crown corporation).

- ◆ MLAs want to monitor who gives money to political parties and who gets money from government agencies;
- ◆ MLAs want to ensure government agencies spend money objectively; and
- ◆ MLAs want to build public confidence by ensuring the use of public money is transparent.

To achieve these objectives, the Assembly, through the Standing Committee on Public Accounts (PAC), has established the following general standard of public disclosure of those who received money from government agencies. In addition, the Assembly wants this information tabled in the Assembly:

- ◆ persons who received salaries, wages, honorariums and compensation for personal services of \$2,500 or more during the year;
- ◆ suppliers of goods and services who received more than \$20,000 per year; and
- ◆ persons who received transfer payments of more than \$5,000 per year.

The Assembly has allowed some exceptions, e.g., payments to social assistance recipients, Workers' Compensation Board payments to injured workers and cases where PAC advised that this information was not necessary to achieve the MLAs' objectives. Also, the Assembly has

decided that some payments (e.g., those made to MLAs) should have more disclosure than the general standard.

In February 1998, PAC discussed its previous recommendation regarding agencies publishing lists of persons who have received money from them. PAC agreed the spirit of accountability is of fundamental importance for government. Also, PAC noted that circumstances for every government agency may be unique and may vary, and that broad recommendations that blanket all agencies are not appropriate.

In previous reports, we have recommended that CIC and its subsidiaries should:

- ◆ publish a list of persons (e.g., employees, suppliers) who received money from them and the amounts the persons received following PAC's current disclosure requirements; or
- ◆ seek direction on alternate disclosure requirements from PAC or, if the Assembly so directs, from the Crown Corporations Committee.

In its Third Report of the 23<sup>rd</sup> Legislature, PAC recommended that the Assembly refer this issue to the Crown Corporations Committee for review and consideration, as it relates to CIC and its subsidiaries. The Assembly concurred with PAC's Third Report, but has not yet ordered referral of this matter to the Crown Corporations Committee. However, proposed amendments to *The Provincial Auditor Act* provide that the parts of our reports relating to CIC and its subsidiaries are deemed to be referred to the Crown Corporations Committee.

CIC and its subsidiaries account for 40% of the Government's spending. If MLAs do not receive information on who received this money, their objectives for requiring public disclosure of persons who receive money from government agencies cannot be met. If their objectives are not being met, it defeats the purpose of incurring the cost to produce this information for the other 60% of the Government's spending.

Exhibit 2 at the end of this chapter contains criteria that MLAs can use for deciding what information government agencies should disclose and to whom. We note that the Crown Corporations Committee currently requests and receives some information about spending by CIC and its

subsidiaries, such as expenses for out-of-province travel and payments to board members, senior management and consultants.

- 2. We recommend that CIC and its subsidiaries should:**
  - ◆ **publish a list of persons (e.g., employees, suppliers) who have received money from them and the amounts the persons received, following the Assembly's current disclosure requirements; or**
  - ◆ **seek direction from the Crown Corporations Committee on alternate disclosure requirements that will achieve legislators' objectives for requiring this information.**
  
- 3. We recommend that the Crown Corporations Committee should follow the process set out in Exhibit 2 for deciding what information government agencies should disclose and to whom.**

### **Approval for purchasing and selling shares**

Previously, we recommended that the Government should strengthen laws governing the purchase and sale of shares by requiring Crown corporations to obtain an Order in Council before selling shares or securities of any corporation. On January 4, 1999, PAC agreed with our recommendation.

In February 2000, the Government's response to PAC's Third Report stated:

In June 1998, CIC addressed this issue through issuance of a policy for the Authorization and Disclosure of Subsidiary Investment Activities, which requires all subsidiaries to obtain an Order in Council before purchasing shares.

Due to confidentiality around the sale of assets, CIC's policy on disclosure of significant transactions with the Crown Corporations Committee (CCC) is to provide the forum for discussion and analysis of a sales transaction. A significant transaction must be reported to the CCC within 90 days of the transaction date.

The policies noted in the Government's response are reasonable. However, we believe these policies should be put into law. We also reported this matter in Chapter 6 of our 2000 Spring Report.

**4. We recommend that the Government change current laws to:**

- ◆ **require subsidiaries of Crown corporations to obtain an Order in Council before purchasing shares; and**
- ◆ **require Crown corporations and their subsidiaries to report the sale of shares to the Crown Corporations Committee within 90 days of the transaction date.**

## **Exhibit 1 – Subsidiaries, corporations, and pension plans under CIC’s control at December 31, 2000**

CIC Industrial Interests Inc.  
CIC Pulp Ltd.  
CIC Foods Inc.  
Genex Swine Group Inc.  
Saskatchewan Valley Potato Corporation  
10102875 Saskatchewan Ltd.  
Capital Pension Plan

Information Services Corporation of Saskatchewan

Saskatchewan Development Fund Corporation  
Saskatchewan Development Fund

SaskEnergy Incorporated  
TransGas Limited  
Bayhurst Gas Limited  
Many Islands Pipe Lines (Canada) Limited  
Swan Valley Gas Corporation  
SaskEnergy International Incorporated  
SaskEnergy Chilean Holdings I Ltd.  
SaskEnergy Chilean Holdings II Ltd.  
SaskEnergy Chilean Holdings Limitada

Saskatchewan Government Growth Fund Management Corporation  
Saskatchewan Government Growth Fund Ltd.  
Saskatchewan Government Growth Fund II Ltd.  
Saskatchewan Government Growth Fund III Ltd.  
Saskatchewan Government Growth Fund IV Ltd.  
Saskatchewan Government Growth Fund V (1997) Ltd.  
617275 Saskatchewan Ltd.  
101005716 Saskatchewan Ltd.  
Saskatchewan Government Growth Fund VI Ltd.  
Saskatchewan Government Growth Fund VII Ltd.  
Saskatchewan Government Growth Fund VIII Ltd.

Saskatchewan Government Insurance  
SGI Canada Insurance Services Ltd.  
Saskatchewan Government Insurance Superannuation Plan

Saskatchewan Opportunities Corporation

Saskatchewan Power Corporation  
SaskPower International Inc.  
Power Greenhouses Inc.  
Northern Enterprise Fund Inc.  
Power Corporation Superannuation Plan

**Exhibit 1 – Subsidiaries, corporations and pension plans  
under CIC’s control at December 31, 2000 –  
continued**

Saskatchewan Telecommunications Holding Corporation  
Saskatchewan Telecommunications  
Saskatchewan Telecommunications International, Inc.  
SaskTel International Consulting, Inc.  
SaskTel International (Tanzania) Limited  
Battleford International Inc.  
Avonlea Holding, Inc.  
Carlyle Holding, Inc.  
Dundurn Holding, Inc.  
Esterhazy Holding, Inc.  
Foam Lake Holding, Inc.  
SaskTel Holding (U.K.) Inc.  
SaskTel Holding (Australia), Inc.  
SaskTel New Media Fund Inc.  
SecurTek Monitoring Solutions Inc.  
Grenfell Holding, Inc.  
101000606 Saskatchewan Ltd.  
101000607 Saskatchewan Ltd.  
620064 Saskatchewan Ltd.  
3339807 Canada Ltd.  
3364381 Canada Ltd.  
DirectWest Publishing Partnership  
SaskTel Investments Inc.  
Hollywood at Home Inc.  
SaskTel Holding (New Zealand) Inc.  
3231518 Canada Ltd. (click-a-bid)  
SaskTel Data Exchange Inc.  
IQ&A Corporation  
IQ&A Partnership  
Hospitality Network Canada Inc.  
Hospitality Network Canada Partnership  
Saskatchewan Telecommunications Pension Plan

Saskatchewan Transportation Company

Saskatchewan Water Corporation



## Exhibit 2 – Suggested criteria for MLAs' use in deciding what information government agencies should disclose and to whom

