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## Executive summary

In this chapter, we report the results of our audit of Saskatchewan Water Corporation (SaskWater) for the year ended December 31, 2000.

SaskWater's 2000 financial statements are reliable. SaskWater complied with the authorities governing its activities except that it did not obtain adequate approval to dispose of real property. Also, SaskWater needs to strengthen security over its information technology systems and data.

We also report on the status of a recommendation that we made in our 2000 Spring Report relating to SaskWater's management of its investment in the potato industry from 1996 through 1999. We recommended that SaskWater adopt a policy to ensure it does not commit financial resources to significant investments until it has gathered the necessary information for decision-making. Although SaskWater has disposed of its investment in the potato industry, this recommendation continues to be relevant because SaskWater invests in utility projects. SaskWater has not yet adopted such a policy.

## Introduction

The Saskatchewan Water Corporation (SaskWater) operates under the authority of *The Water Corporation Act*. SaskWater manages, develops, controls, and protects the water and related land resources of Saskatchewan. SaskWater has three main lines of business: water management, water supply and services, and water-based economic development.

At December 31, 2000, SaskWater held assets of \$71.6 million, had revenues of \$34.2 million, and expenses of \$36.2 million. SaskWater's 2000 Annual Report includes its financial statements.

This chapter contains our audit conclusions and findings regarding SaskWater for the year ended December 31, 2000.

## Our audit conclusions and findings

Our Office worked with PricewaterhouseCoopers, the appointed auditor for SaskWater, using the framework recommended in 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/rtd.html>). The appointed auditor and our Office formed the opinions below.

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

- ◆ **SaskWater's financial statements are reliable;**
- ◆ **SaskWater had adequate rules and procedures to safeguard and control its assets except that SaskWater should set appropriate security policies for its information technology systems and data; and**
- ◆ **SaskWater complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except as described in this chapter.**

In addition, our Office followed up on the status of the recommendation we made in our 2000 Spring Report regarding the adequacy of

SaskWater's rules and procedures for managing its investment in the potato industry. Our conclusions and findings are set out in this chapter.

We also report on our assessment of SaskWater's annual report and another matter for the attention of the Legislative Assembly (Assembly).

## **Better security needed**

SaskWater needs to strengthen security over its information technology (IT) systems and data.

SaskWater depends on a number of IT systems to deliver its services to customers, to ensure compliance with acts and regulations governing its services, and to manage its financial affairs. As a result, SaskWater must protect its IT systems and data from unauthorized access and changes and from accidental or deliberate destruction.

In our 2000 Spring Report, we recommended that SaskWater set appropriate security policies for its IT systems and data.

Exhibit 1 sets out criteria that organizations can use to reduce IT security risks to an acceptable level.

### **Exhibit 1**

To ensure information technology (IT) security risks are reduced to an acceptable level, organizations should:

- ◆ identify the threats and risks to IT systems and data;
- ◆ involve senior management in the review and approval of security policies and procedures needed to reduce the risk to an acceptable level;
- ◆ clearly assign the roles and responsibilities for IT security;
- ◆ inform staff of their IT security responsibilities and train them accordingly;
- ◆ approve written and tested contingency plans for IT systems;
- ◆ monitor the effectiveness of approved security policies and procedures; and
- ◆ report the results of monitoring to senior management.

SaskWater has established a number of security practices to protect its IT systems and data (e.g., passwords to restrict access to data and regular backups of data in case data is lost). However, we found that some of

these security practices were not followed. We also found that SaskWater does not have complete and approved security policies for its IT systems and data. As a result, SaskWater's current IT security management practices do not provide sufficient guidance to staff on the level of protection its IT systems and data need or on the security responsibilities of staff. This guidance is critical to assist SaskWater in meeting the criteria set out in Exhibit 1. SaskWater risks financial losses caused by the release of confidential information, decisions based on incorrect information, and the loss of information. Also, SaskWater risks non-compliance with legislative authorities.

**1. We continue to recommend that SaskWater set appropriate security policies for its IT systems and data.**

Management told us that SaskWater intends to implement security policies and procedures based on the security guidelines that the Government is currently developing.

## **Act needs clarification**

During 2000, SaskWater, through its subsidiaries, sold real property without obtaining Lieutenant Governor in Council (Cabinet) approval.

*The Water Corporation Act* requires that SaskWater obtain the prior approval of Cabinet before acquiring or disposing of real property in excess of \$250,000. During 2000, SaskWater sold the assets of its potato business. It did this in two transactions. The first transaction included approximately \$17 million of assets (mainly real property) that SaskWater held directly. This real property was sold to Crown Investments Corporation of Saskatchewan (CIC). The second transaction included approximately \$5 million of assets (mainly real property) that SaskWater held indirectly through two subsidiaries. This real property was sold to a subsidiary of CIC.

SaskWater obtained Cabinet approval to sell the real property in the first transaction but not the second transaction. Management informed us their lawyer and CIC advised them they did not need Cabinet approval for the second transaction because in their opinion the legislative restriction does not apply to SaskWater's subsidiaries.

We think SaskWater should have obtained Cabinet approval for the second transaction because subsidiaries of corporations do not have greater powers than their parent corporation.

In Chapter 11 (Crown Investments Corporation of Saskatchewan) of this report, we set out further details of this matter. In that Chapter, we recommend that the Government should clarify the law to require Crown corporations to obtain Cabinet approval before purchasing or selling real property (over prescribed limits) either directly, or indirectly through a subsidiary.

### **Follow-up of prior investment policy recommendation**

In our 2000 Spring Report, we recommended that SaskWater's Board should adopt a policy to ensure that it does not commit financial resources to significant investments until it has:

- ◆ approved clear and measurable objectives for the investments;
- ◆ analyzed the risks, costs, and benefits of the investments; and
- ◆ set performance indicators against which it can measure the extent of achievement of the investment objectives.

During 2000, SaskWater disposed of its investment in the potato industry. However, SaskWater makes other investments in the normal course of its operations. SaskWater invests significant amounts of money in municipal and industrial water utility projects. Our recommendation is relevant to all investments.

Management currently provides the Board with information about potential utility investments when management seeks the Board's approval for these investments. This information includes planned objectives for the investments, analysis of the risks, costs and benefits of the investments, and planned ways to assess performance of the investments.

However, SaskWater's Board has not set an investment policy that requires management to bring forward the appropriate information for decision-making. A written Board policy will help to ensure future management and Board members will be aware of the information needed to make investment decisions.

2. **We continue to recommend that SaskWater's Board should adopt a policy to ensure it does not commit financial resources to significant investments until it has:**
- ♦ **approved clear and measurable objectives for the investments;**
  - ♦ **analyzed the risks, costs, and benefits of the investments; and**
  - ♦ **set performance indicators against which it can measure the extent of achievement of the investments' objectives.**

## **Annual Report needs improvement**

SaskWater's 2000 Annual Report does not include a comparison of SaskWater's plans and actual results.

We reviewed SaskWater's Annual Report for the year ended December 31, 2000. The Annual Report does not compare SaskWater's plans and actual results for the year. As a result, the Assembly and the public cannot use the Annual Report to fully assess SaskWater's performance.

To assess performance of public sector agencies, the Assembly and the public need adequate information about the agency's plans and the agency's achievement of those plans. Public sector agencies should provide their vision, long-term goals, specific objectives, key performance targets, and main strategies for achieving these plans. They should also report the extent to which they have achieved those plans.

CIC and its subsidiary Crown corporations are using the Balanced Scorecard performance measurement system. In January 2000, CIC set a performance reporting and disclosure policy for its subsidiaries which includes SaskWater. The policy sets out how these subsidiary Crown corporations should plan and report their performance along with a timetable for the public reporting of the key elements of the Balanced Scorecard. We support this initiative and look forward to improved performance reporting by SaskWater.

We discussed this matter more fully in Chapter 2 (Crown Investments Corporation of Saskatchewan) of our 2000 Spring Report.

- 3. We continue to recommend that SaskWater improve its public accountability by clearly describing in its annual report the extent to which it has achieved its plans.**

Management told us they are committed to publicly reporting SaskWater's Balanced Scorecard results no later than in its 2002 annual report.

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

In past reports, we recommended that SaskWater should annually provide the Assembly with a list of persons who received public money. See Chapter 11 (Crown Investments Corporation of Saskatchewan) for an update on this matter.