Finance

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Executive summary

In this chapter, we report the results of the audit of the Department of Finance and the entities it controls or administers. Overall, the Department does a good job of managing its responsibilities.

However, we have concerns with the General Revenue Fund (GRF) financial statements and with the budgeting information provided in the budget Estimates.

The Department's accounting practices are not in accordance with the Canadian Institute of Chartered Accountant's accounting standards for the public sector. As a result, the GRF financial statements do not record its pension liability of $3.9 billion and its pension costs are understated by $112 million.

Also, the GRF financial statements inappropriately record an expenditure of $775 million. It is not appropriate to record the $775 million as an expenditure because the Fiscal Stabilization Fund must return the $775 million to the GRF.

We also report concerns with the budgeting information provided in the budget Estimates. For example, the Department does not include the GRF's total expected pension costs for the year in the budget Estimates. This is important because the Government uses the GRF's budgeted surplus or deficit as one of its key economic indicators.

However, in Volume 1 of our 2001 Fall Report we discuss a larger concern with the budgeting process. Our concern is that a budget focused only on the GRF does not provide sufficient information to know if the Government is living within its means because significant activity occurs outside the GRF.

Introduction

The Department of Finance (Department) helps the Government and the Legislative Assembly manage and account for public money. It controls spending from the General Revenue Fund (GRF) and ensures the GRF receives all revenue due to it. The Department prepares the Government's summary financial statements. Also, the Department prepares an annual report that includes important accountability information about its activities, goals, and challenges.

The Department of Finance:

- prepares the annual Budget Address, Estimates and Public Accounts;
- arranges Government financing, banking, investing and borrowing;
- provides policy and financial analysis to Treasury Board and Executive Council;
- develops tax policy alternatives;
- administers various tax, grant, and refund programs;
- provides economic forecasting and economic, social, and statistical data;
- administers public sector pension and benefit plans; and
- leads the Government's accountability project.

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies.

Year end December 31

Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Municipal Employees' Pension Commission
Public Employees Deferred Salary Leave Fund
Public Employees Disability Income Fund
Public Employees Dental Fund
Public Employees Group Life Insurance Fund
Saskatchewan Pension Plan
SaskPen Properties Ltd.

Year end March 31

General Revenue Fund (GRF)
Fiscal Stabilization Fund[1]
Members of the Legislative Assembly Superannuation Plan
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund
SP Two Properties Ltd.

In addition, the Department administers the Liquor Board Superannuation Commission, the Workers' Compensation Board Superannuation Plan, and the SaskPower Supplementary Superannuation Plan (fiscal years ending December 31).

[1] The Department does not prepare audited financial statements for this Fund. As required by *The Fiscal Stabilization Fund Act*, a schedule of transfers and accumulated balance appears in Public Accounts Volume 1.

Financial overview

The following is a list of the Department's major programs and spending:

	Original Estimates	Actual
	(in millions of dollars)	
Interest-GRF debt	677	664
Interest-Crown corporation debt	376	378
Total interest on debt	1,053	1,042
Pensions and benefits	174	168
Administration	27	30
	1,254	1,240

The following is a list of the Department's major revenue sources:

	Original Estimates	Actual
	(in millions of dollars)	
Individual Income Tax	1,247	1,255
Interest - Crown Corporations	376	378
Sales Tax	815	737
Transfers Equalization	336	175
Transfers CHST	495	552
Fuel Taxes	348	345
Corporation Taxes	589	676
Tobacco Taxes	125	122
Income - Government Entities	1,177	1,039
Motor Vehicle Fees	112	114
Other	103	157
	5,723	5,550

Key risks

It is important that Members of the Legislative Assembly (MLAs) and the public know the key risks facing a department. Also, they should receive information on these risks to understand and assess a department's performance. We think sharing our understanding of the Department's key risks with MLAs and the public will help them better understand and assess the Department's performance.

Information on how a department is managing its key risks can increase public confidence. Annual reports are often used to provide this information to MLAs and the public.

We identified the following key risks the Department must manage well to be successful. It must:

- give Treasury Board accurate and useful information to enable it to develop, manage and evaluate the Government's fiscal plan;
- publish useful planning and performance reports;
- manage the Government's debt;
- manage investments;
- collect revenues due to the Department;
- manage several government pension and benefit plans; and
- ensure designated government entities comply with Treasury Board's directives.

To identify these key risks, we reviewed *The Financial Administration Act, 1993* and other legislative authorities. We also reviewed the Estimates, the Public Accounts, the Budget Address, the Department's annual report, and prospectus documents. In addition, we discussed these risks with key Department officials.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings on the Department, its special purpose funds, and Crown agencies for the fiscal years ending on or during the year to March 31, 2001, except for the SaskPower Supplementary Superannuation Plan. We are completing our work on this Plan and will report the results in a future report.

Our Office worked with Deloitte & Touche, appointed auditor for the Saskatchewan Pension Plan and the Workers' Compensation Board Superannuation Plan, and KPMG, appointed auditor for the Public

Employees' Pension Plan and the Municipal Employees' Pension Commission. 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, Deloitte & Touche, and KPMG formed the following opinions.

In our opinion:

- **the Department and its Crown agencies had adequate rules and procedures to safeguard and control their assets;**
- **the Department and its Crown agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter and for pension payments to certain retired members who return to work that we report in Chapter 8 of our 2001 Spring Report;**
- **the Government's summary financial statements included in the *Public Accounts 2000-2001 Volume 1* are reliable;**
- **the financial statements for the special purpose funds and Crown agencies listed above that were audited are reliable, except for the GRF; and**
- **the GRF financial statements included in the *Public Accounts 2000-2001 Volume 1* are reliable, except that the transfer to the Fiscal Stabilization is not properly recorded and all pension costs are not recorded.**

We also provide comments on the Department's annual report and special warrants.

Our auditor's report on the GRF financial statements

Our auditor's report on the GRF financial statements for the year ended March 31, 2001 warns readers that the financial statements do not include all of the Government's financial activities. Therefore, readers should not use the GRF statements to understand and assess the

Government's overall performance. The appropriate financial statements to use for that purpose are the Government's summary financial statements.

In addition, our auditor's report on the GRF financial statements for the year ended March 31, 2001 includes two reservations. The financial statements are significantly misstated because the GRF's pension costs and the transfer to the Fiscal Stabilization Fund are not reported properly.

The combined effects of these two reservations are as follows:

- the GRF's annual surplus for 2000-2001 reported as $58 million is understated by $663 million;
- the transfer to the Fiscal Stabilization Fund of $775 million overstates expenditures by $775 million;
- pension expenditures are understated by $112 million; and
- pension liabilities are understated by $3.9 billion, assets are understated by $775 million, and accumulated deficit is understated by $3.1 billion.

Pension costs reservation

The GRF is responsible for the liabilities of several pension funds. These liabilities are not recorded in the GRF financial statements. Therefore, the Assembly and the public are unable to properly assess pension costs because the financial statements do not include the GRF's total pension costs for the year or the unfunded pension liability. The financial statements only include the amounts the Government actually paid retired members or contributed to a pension fund that year. The effects of not properly recording pension costs are as follows:

- the GRF's surplus for 2000-2001 reported as $58 million is overstated by $112 million;
- pension expenditures are understated by $112 million; and

- pension liabilities and accumulated deficit are understated by $3.9 billion.

In March 2001, the Standing Committee on Public Accounts (PAC) considered this matter and disagreed with the recommendation, stating:

> … there are other "proper" methods of accounting in additi on to the standards of the Canadian Institute of Chartered Accountants advocated by the Office of the Provincial Auditor and that the Department was accounting for the pension costs in accordance with these other standards.

The "other standards" referred to is the cash basis of accounting. We found that the cash basis for recording pension costs is not generally accepted among Canadian governments. Beside Saskatchewan, Manitoba is the only other government in Canada that publishes financial statements that do not follow The Canadian Institute of Chartered Accountants accounting standards for pensions.

1. **We recommend that the Department account for pension costs in The General Revenue Fund financial statements in accordance with the Canadian Institute of Chartered Accountants accounting standards for the public sector.**

Fiscal Stabilization Fund reservation

The GRF financial statements show a liability of $775 million owed to the Fiscal Stabilization Fund and an expenditure of $775 million for the current year. However, it is not appropriate to record the $775 million as an expenditure because the Fiscal Stabilization Fund must return the $775 million to the GRF. The substance of the transaction is that the GRF owes $775 million to the Fiscal Stabilization Fund and the Fiscal Stabilization Fund owes $775 million back to the GRF.

Instead of recording an expenditure of $775 million, the GRF financial statements should record an asset of $775 million owed from the Fiscal Stabilization Fund.

The effects of not properly reporting this asset are as follows:

- the GRF's surplus for 2000-2001 reported as $58 million is understated by $775 million;

- GRF expenditures are overstated by $775 million;

- assets are understated by $775 million; and

- accumulated deficit is overstated by $775 million.

The Fiscal Stabilization was created in April 2000. The stated purpose of this Fund is to stabilize the fiscal position of the Government from year to year. However, making transfers from one fund to another, and back again, has no effect on the Government's overall financial position. The Government's total net worth for 2001, which amounts to an accumulated deficit of $7.9 billion, is unaffected.

Therefore, the only consequence of recording this transaction in the GRF financial statements is that the actual amount of the GRF surplus has been changed to another amount chosen by the Government. This is worrisome because the Government uses the amount of the GRF's surplus or deficit as one of its key performance indicators.

2. **We recommend that the General Revenue Fund financial statements should record transfers to the Fiscal Stabilization Fund as an asset, not as an expenditure. In addition, the General Revenue Fund financial statements should record any transfers back to the General Revenue Fund as a reduction of that asset, not as revenue.**

Annual pension costs not included in Estimates

In previous reports, we reported that the Assembly and the public are unable to properly assess pension costs because the Estimates do not include the GRF's estimated total pension costs for the year. The Estimates only include the amounts the Government expects to pay retired members or contribute to a pension fund that year.

The effects of not including the GRF's total pension costs in the Estimates for the year ended March 31, 2001 are as follows:

- the GRF's budgeted surplus of $9 million is overstated by $75 million;
- budgeted operating expenditures of $5.3 billion are understated by $75 million; and
- the budgeted accumulated deficit of $7 billion is understated by $3.9 billion.

3. We continue to recommend that the Department include the General Revenue Fund's total pension costs for the year in the Estimates.

In March 2001, PAC considered this matter and disagreed with our recommendation.

This matter is important because the Government uses the GRF's budgeted surplus or deficit as one of its key performance indicators. If the budgeted surplus or deficit does not include the total estimated pension costs, it is difficult for the Assembly and the public to assess the Government's performance. As well, the Assembly makes decisions based on the belief that the "budget" is balanced. It might make different decisions if the budget included the correct amount of expected pension costs for the year.

In Volume 1 of our 2001 Fall Report, we discuss a more significant concern with the Government's budgeting process. We state that a budget focused only on the GRF does not provide sufficient information for the Assembly and the public to have an informed debate on issues such as the affordability of new or existing programs. For example, citing the financial results of the GRF, the Government reports that its surplus for 2001 is $58 million. However, according to the Government's summary financial statements, the real surplus for 2001 is $506 million. On page 23 of Volume 1 of our 2001 Fall Report, we recommend that the Government should publish a financial plan for the entire Government.

Annual Report

In previous reports, we recommended that the Department prepare an annual report. We are pleased to report the Department now prepares an annual report and issues it on a timely basis.

The annual report includes the Department's vision, values, and mandate. It describes the Department's main goals and the basic strategies to achieve these goals. The annual report documents whether the goals have been achieved and, in some cases, the progress made on the goals. As well, the report describes the Department's future challenges and opportunities.

Future reports could contain more specific information about performance targets and the measures used to assess the achievement of the objectives. The Department is actively working towards developing performance targets and measures as part of the Government's accountability project.

The annual report also includes financial information on the planned and actual results of the Department's operations. Future reports could contain information explaining the variances between planned and actual results.

Special warrants

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2001, the Government approved the spending of $213.1 million by special warrant. It later included these special warrants in an appropriation act.

Members of the Legislative Assembly Superannuation Plan

The Members of the Legislative Assembly Superannuation Plan (Plan) receives contributions from Members and the GRF. The Department uses the contributions and investment income to pay pensions and administrative costs. In 2001, the Plan paid pensions of $2.4 million. At March 31, 2001, it held net assets of $20 million.

Law needs to be consistent

The Department needs to seek changes to *The Members of the Legislative Assembly Superannuation Act, 1979 (MLA* Act) to make its requirements for contributions consistent with Canada's *Income Tax Act*.

The Members of the Legislative Assembly defined contribution plan (plan) is registered under the Income Tax Act. However, the MLA Act is in conflict with requirements of the Income Tax Act. For example, for the plan, the Income Tax Act allows a maximum combined contribution by the member and the Government of $13,500 per year or 18% of the member's earned income if that is lower than $13,500. The MLA Act requires its defined contribution plan members and the Government to contribute in excess of the maximum.

When pension plans do not comply with the Income Tax Act they face the risk of losing their registration, resulting in immediate tax implications for their members.

We reported this matter in our 2001 Spring Report.

4. We continue to recommend the Department should seek change to the provisions of *The Members of the Legislative Assembly Superannuation Act, 1979* to make them consistent with Canada's *Income Tax Act.*

The Department told us it is seeking legislative changes.

Spousal payments require authority

The Department paid more allowances to surviving spouses of deceased members than required by *The Members of the Legislative Assembly Superannuation Act, 1979* (Act).

We continue to recommend the Department should pay allowances to surviving spouses as required by the Act or seek changes to the Act to allow for these payments.

We reported this matter in our 2001 Spring Report and previous reports. PAC considered this matter in the past and more recently in March 2001 and concurred with our recommendation.

The Department told us it continues to seek legislative changes.

Act needs to provide direction

The Members of the Legislative Assembly Superannuation Act, 1979 needs to set out how the Department should administer profits or losses from underwriting annuities.

The law does not specify who pays for any future losses, nor does it direct the use of profits. At March 31, 2001, the accumulated profits from underwriting annuities were $150,000 (2000- $253,000, 1999 - $157,000, 1998 - $231,900, 1997 - accumulated losses of $55,950).

We continue to recommend the Department should seek changes to the law to provide direction for the handling of profits or losses from underwriting annuities.

We reported this matter in our 2001 Spring Report and previous reports. PAC considered this matter in the past and more recently in March 2001 and concurred with our recommendation.

The Department told us it continues to seek legislative changes.