Agriculture and Food

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Executive summary

This chapter contains several new recommendations relating to improvements required in financial reporting and monitoring for the Horned Cattle Fund, Prairie Agricultural Machinery Institute, Milk Control Board, and Agricultural Credit Corporation of Saskatchewan.

Financial reporting needs to be accurate and include sufficient information to allow for a proper assessment of performance. Adequate policies and procedures must exist and be followed by staff in preparing financial reports. Staff must also receive the proper training to help them prepare complete and accurate financial reports. Management should also review these reports for reasonability.

Monitoring financial activity is important to ensure that resources are used for the purposes intended. Boards must devote sufficient time and attention in planning and overseeing business activities. Budgets should be used to analyse results, determine corrective action, and hold management accountable. Management must also monitor the reports it receives from outside agencies to ensure compliance with agreements.

In this chapter, we repeat our concerns with the reliability of the financial statements of the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In our opinion, money transferred to these Funds from the General Revenue Fund is not being accounted for properly. We continue to await the results of a project undertaken by The Canadian Institute of Chartered Accountants on government transfers. This project will clarify standards in this area and address the matters we raise in this chapter.

Finally, we identify the key risks of the Saskatchewan Crop Insurance Corporation. We think that sharing our understanding of these risks will help legislators and the public better understand and assess the Corporation's performance.

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. Effective April 2002, its name changed to Department of Agriculture, Food and Rural Revitalization.

Financial overview

The following table sets out the Government's total expenditures and revenues for the agricultural programs it administers through the Department and other organizations that the Government owns or controls. This information is reflected in the Government's summary financial statements for the year ended March 31, 2002.

	2002	2001
	(in millions of dollars)	
Agricultural expenditures by program:		
Crop insurance	$ 374	$ 169
Farm sector initiatives	306	---
Farm income stability (NISA*)	47	47
Farm Land Education Tax Rebate Program	21	25
Other	89	81
	$ 837	$ 322
Agricultural revenues by source:		
Federal Government	$ 235	$ 108
Producers' crop insurance premiums	67	54
Sales, services, fees and permits	33	30
Interest on loans and investments	11	19
Other	11	---
	$ 357	$ 211

* Net Income Stabilization Account

Information about the Department's revenues and expenditures is reported in the Department's 2001-2002 Annual Report. Revenues and expenses of the Department's special purpose funds and Crown agencies are reported in the Public Accounts compendium, except for agencies under the Agricultural and Food Products Development and Marketing Council, which are reported in the Council's annual report.

Special purpose funds and Crown agencies

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

	Year End
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Agri-Food Equity Fund	March 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Horned Cattle Fund	March 31
Livestock Services Revolving Fund	March 31
Milk Control Board	December 31
Pastures Revolving Fund	March 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Crop Insurance Corporation	March 31
Crop Reinsurance Fund of Saskatchewan	March 31

Crown Agencies under the Agricultural and Food Products Development and Marketing Council (Council)

Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Canola Development Commission	July 31
- Canodev Research Inc.	July 31
Chicken Farmers of Saskatchewan	December 31
Saskatchewan Egg Producers	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Turkey Producers' Marketing Board	December 31
Sask Pork	July 31

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for:

- the special purpose funds and Crown agencies for the fiscal years ending between April 1, 2001 and March 31, 2002, except for the Pastures Revolving Fund. Our audit of the Pastures Revolving Fund is not complete due to established priorities. We will report the results of this audit in a future report.

We did not participate in the audits of agencies under the Council except for Sask Pork, Saskatchewan Canola Development Commission, and Canodev Research Inc. Instead, as part of our audit of the Department of Agriculture and Food, we examine the supervisory work carried out by the Council regarding the financial statements of these agencies and the rules and procedures to safeguard and control their assets and comply with legislative authorities.

Our Office worked with the following appointed auditors:

- Deloitte & Touche LLP
  - Sask Pork
- KPMG LLP
  - Saskatchewan Agricultural Stabilization Fund
  - Saskatchewan Crop Insurance Corporation
  - Crop Reinsurance Fund of Saskatchewan; and
- PricewaterhouseCoopers LLP
  - Agricultural Credit Corporation of Saskatchewan.

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 web site at http://www.auditor.sk.ca/rrd.html). Our Office and the appointed auditors formed the following opinions.

In our opinion:

- **the Department and its special purpose funds and Crown agencies had adequate rules and procedures to safeguard and control their assets, except where we report otherwise in this chapter.**

- **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.**

- **the financial statements of the Department's special purpose funds and Crown agencies are reliable, except for the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In KPMG's opinion, the financial statements of the Saskatchewan Agricultural Stabilization Fund are reliable.**

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 and the Government of Saskatchewan, and discussion with the Department's management.

Importance of financial statements

Several matters reported in this chapter pertain to financial reporting. Good financial reporting is essential for the following reasons.

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. Organizations use financial statements to demonstrate their accountability for the public resources entrusted to them and to provide information useful in evaluating their financial performance. To understand and assess performance, MLAs and the public need government organizations to follow rigorous accounting rules that report their financial results in a consistent and comparable manner. Also, they need this information in a timely manner.

When government organizations do not follow rigorous accounting rules, they increase the risk that their annual financial statements may misstate their financial results. Incorrect financial statements increase the risk that MLAs and the public will form incorrect conclusions about the organization's financial performance. Also, they increase the risk that MLAs and the public will make incorrect decisions.

In June 2001, The Canadian Institute of Chartered Accountants announced it would begin a project to address the differences that have arisen in the interpretation and application of accounting standards concerning government transfer payments. Clarification of these standards will help to address the matters we raise in this chapter concerning the reliability of the financial statements of the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund.

Saskatchewan Agricultural Stabilization Fund and Agri-Food Innovation Fund

The Department administers the Saskatchewan Agricultural Stabilization Fund (SASF) and the Agri-Food Innovation Fund (AFIF).

Saskatchewan Agricultural Stabilization Fund

SASF reports the transactions of the following eight programs.

The New Crops Insurance Program
The Big Game Damage Compensation Program
The Waterfowl Damage Compensation Program
The Agricultural Income Disaster Assistance Program (AIDA)
The Canadian Farm Income Program (CFIP)
The Unseeded Acreage Benefit Program
Canada-Saskatchewan Adjustment Program
Canada-Saskatchewan Assistance Program

The Governments of Canada and Saskatchewan agreed to share the costs of the above programs. Saskatchewan administers all the programs except AIDA and CFIP. Canada administers AIDA and CFIP.

The laws governing these programs and the agreements between Canada and Saskatchewan require that all money paid into SASF for these programs can only be used for the purposes of those 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. SASF operates on a break-even basis except for the interest income earned on advances, which SASF is allowed to keep.

SASF's financial statements for the year ended March 31, 2002 report revenues of $292.8 million and expenses of $309.9 million. The financial statements also show net financial assets of $14.6 million at March 31, 2002. This information is incorrect. The financial statements are not reliable as described below. The financial statements are included in SASF's 2001-2002 Annual Report.

Agri-Food Innovation Fund

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

Canada and Saskatchewan advanced money to AFIF to pay for the program costs. The laws governing AFIF and the shared-cost agreement between Canada and Saskatchewan require that all money paid into AFIF can only be used for certain stated purposes. Also, AFIF must return any unspent money to Canada and Saskatchewan at the end of the program. In other words, AFIF is designed to operate on a break-even basis except for interest income earned on advances, which it is allowed to keep. Accordingly, these advances should be recorded as liabilities (i.e., as amounts owed back to Canada and Saskatchewan) until AFIF incurs program costs. When program costs are incurred, AFIF should deduct an equal amount from liabilities and record it as revenue to offset the program costs.

AFIF's financial statements for the year ended March 31, 2002 report net financial assets of $11.2 million. This information is incorrect. The financial statements are not reliable as described below. The financial statements are included in AFIF's 2001-2002 Annual Report.

Reliability of the financial statements

The financial statements of SASF and AFIF are incorrect.

SASF's financial statements understate revenue and overstate its annual deficit (i.e., annual loss) for 2002 by $14.6 million. Also, the financial statements understate SASF's liabilities (what it owes to others) by $7.2 million. This information gives readers of the financial statements the wrong message. The message given is that expenses exceed revenue by $14.6 million and that SASF has extra money on hand that it can keep because it is no longer required to pay for future program costs. In fact, SASF broke even in 2002 and must use the $7.2 million reported as net assets to pay for future program costs or return the money to the General Revenue Fund (GRF).

AFIF's financial statements understate its liabilities (what it owes to others) by $5.5 million and overstate its net financial assets (surplus to date) by $5.5 million. This information gives readers of the financial statements the wrong message. The message given is that AFIF has extra money on hand that it can keep because it is no longer required to pay for future program costs. In fact, AFIF must either spend the $5.5 million on future program costs or return it to the GRF.

The errors in both SASF's and AFIF's the financial statements result from the Department incorrectly recording advances from Saskatchewan. 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 standards of The Canadian Institute of Chartered Accountants (CICA). However, the Department incorrectly records money received from Saskatchewan. It records this money as revenue immediately regardless of when the Department incurs the program costs.

The Department should record money received in advance as a liability and later as revenue when it incurs program costs. Also, because SASF and AFIF operate on a break-even basis for the money received from Canada and Saskatchewan, the only net assets of SASF and AFIF should be interest earned on advances.

We also report these matters in our 2001 Fall Report – Volume 2 and in previous reports.

We continue to recommend that the Department record money received from the GRF as a liability of SASF and AFIF until they incur the related program costs or until they return the money to the GRF.

The Department thinks that because SASF, AFIF and the GRF are part of the Provincial Government, any restrictions between them cannot be considered external. Therefore, the Department thinks it is appropriate to record the money received from Canada and the GRF differently.

We disagree. We think it is irrelevant that SASF, AFIF, and the GRF are part of the Provincial Government. The shared-cost agreements between Canada and Saskatchewan restrict the use of money contributed under those agreements for specific purposes. The GRF provided money under the agreements and until SASF and AFIF spend the money for those purposes or return it, they have a debt to the GRF.

On November 5, 2002, the Standing Committee on Public Accounts (PAC) considered these matters. PAC decided to postpone a decision on our recommendation pending the results of a CICA project that is examining accounting standards concerning government transfer payments.

Horned Cattle Fund

The Horned Cattle Fund (Fund) was established under *The Horned Cattle Purchases Act*. The purpose of the Fund is to promote research and development in the livestock industry and to pay the Fund's administrative expenses.

The Minister of Agriculture and Food appointed the Horned Cattle Purchases Act Advisory Committee to administer the Fund.

For the year ended March 31, 2002, the Fund had revenue of $394,997, expenses of $407,559, and held net assets of $225,467. The Fund's financial statements will be included in *The Financial Statements Compendium 2001-2002.*

Monitoring of Western Beef Development Centre needs improvement

The Department needs to monitor whether the Western Beef Development Centre (WBDC) is properly using the resources it receives from the Department. WBDC received $312,460 from the Department via the Fund during the year. Also, the Department needs to ensure that revenues and expenditures reported by WBDC are complete and accurate.

The Minister of Agriculture and Food made a five year agreement with WBDC on November 1, 2001. The Department administers the agreement through the Fund. Under the Agreement, the Department loaned cattle to WBDC for research purposes. WBDC is allowed to sell these cattle to generate funds to pay for research. The proceeds of the sale of these cattle belong to the Department. The Department pays an amount equivalent to the sales proceeds to WBDC for research purposes.

The Agreement requires WBDC to provide the Department with an annual expenditure statement and audited financial statements by May 15. The Agreement also requires WBDC to provide an annual report on its activities by April 30 each year. WBDC provided the annual expenditure statement. However, WBDC did not provide audited financial statements to the Department until June 24, 2002. Also, WBDC has not yet provided an annual report on its activities for the year ended March 31, 2002.

In addition, we noted that the audited financial statements for WBDC do not show the revenues and expenses relating to the Department's cattle separately from WBDC's other operations. The Agreement allows the Department to audit the books, records, and accounts of WBDC that relate to the Agreement. Because WBDC's audited financial statements did not provide information about the Department's cattle, we expected the Department would have examined WBDC's accounts. This would ensure that the Department received all the money from cattle sales and that WBDC used the money it received from the Department for the purposes outlined in the Agreement. The Department did not do any procedures to ensure that it received all the money from cattle sales and that WBDC used the money it received from the Department for research purposes as defined in the Agreement.

1. We recommend that the Department ensure WBDC submits its audited financial statements and its annual report as required under the Agreement dated November 1, 2001.

2. We recommend that the Department establish rules and procedures to ensure that the Department receives all the money from cattle sales and WBDC uses the money it receives from the Department for research purposes.

Prairie Agricultural Machinery Institute

The Prairie Agricultural Machinery Institute (Institute) is a corporation created by *The Prairie Agricultural Machinery Institute Act, 1999*. The affairs and business of the Institute are managed by the Institute's Board. The Institute's Board is appointed by Cabinet. The Institute tests and appraises machinery, undertakes research and development projects, and publishes reports, bulletins, and pamphlets in relation to the agriculture and food industry.

In 2001-2002, the Institute had revenues of $4.1 million and held assets of $4.8 million as at March 31, 2002. The Institute's financial statements are included in its 2001-2002 Annual Report.

Board needs to define its reporting requirements

The Board has not formally set out the financial and operational information it needs to oversee the Institute's operations.

Management provides quarterly financial reports to the Board. These financial reports are not adequate because they are not prepared in accordance with Canadian generally accepted accounting principles. Also, these financial reports do not provide adequate explanations for significant differences between the planned and actual results. In addition, they do not provide accurate projections of results for the remainder of the year. The risk of inappropriate or incorrect decisions increases when the Board receives inaccurate and incomplete financial reports. At March 26, 2002, management told the Board that the net loss for the year would be $166,000. At March 31, 2002, the actual net loss was $291,000.

Also, the financial reports do not include sufficient information for the Board to assess performance. To assess the Institute's performance, the Board needs regular operational information from the management. The operational information would show what the Board required the Institute to achieve and how the Institute is progressing towards achieving those expectations.

3. We recommend that the Board set out the financial and operational information it needs to oversee the Institute's operations.

Complete accounting policies and procedures needed

The Institute's accounting policies and procedures are not adequate to prepare accurate financial statements. When accounting policies and procedures are not clear and complete, there is a greater risk that staff may make errors without detection.

The accounting policies and procedures manual does not set out key procedures to ensure that the financial records are accurate. For example, the manual does not have adequate procedures to ensure that the amounts recorded in the financial records for accounts payable, accounts receivable, and capital asset are accurate. As a result, the financial statements presented for audit had many errors. We identified the errors and the Institute corrected its financial statements.

4. We recommend that the Institute establish rules and procedures to prepare accurate financial statements in accordance with Canadian generally accepted accounting principles.

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 quota. In 2001, the Board had revenues of $125 million and held assets of $9 million. The Board's financial statements are included in its 2001 Annual Report.

Bank account not controlled

The Board did not properly control its bank account. When an organization does not reconcile its bank account on a regular basis, significant errors may go undetected.

The Board did not reconcile its bank account from April to December, 2001. Management told us this was due to the implementation of a new accounting system.

5. We recommend that the Board reconcile its bank account every month.

Management told us that the Board has developed policies and procedures for reconciling its bank account using the new accounting system. Monthly bank reconciliations for April to December 2001 were completed in March 2002. Monthly bank reconciliations are being performed on a timely basis beginning in January 2002.

Agricultural Credit Corporation of Saskatchewan

The Agricultural Credit Corporation of Saskatchewan (ACS) provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the province. In 1996, the Government announced its intention to windup the corporation in an orderly manner. All ACS employees were transferred to the Department of Agriculture and Food in 2001. ACS continues to be responsible for collecting its outstanding loans, monitoring loan collections, and retiring its debt.

In 2002, ACS had total revenues of $7.5 million and held assets of $51.9 million. ACS's financial statements are included in its 2001-02 Annual Report.

Direction and management by the Board

The Board of Directors needs to improve how it directs and manages ACS.

The role played by a board of directors is an important element of control in managing the affairs and business of a corporation. In the document *Guidance for Directors—Governance Process for Control*, the Risk Management and Governance Board of The Canadian Institute of Chartered Accountants identifies the following ways that a board discharges its control responsibilities:

- approving and monitoring the mission, vision, and strategy;
- approving and monitoring the organization's ethical values;
- monitoring management control;
- evaluating senior management;
- overseeing external communications; and
- assessing the board's effectiveness.

The windup of ACS will not be completed for several years. During that time, the corporation will manage and resolve thousands of outstanding loans as well as other assets totalling about $79 million. Accordingly, the Board must continue to devote sufficient time and attention to the direction and management of ACS in planning and overseeing its business activities.

During the 2001-02 fiscal year, the Board met only once, on June 25, 2001. At this meeting, it dealt with two items of business pertaining to the previous fiscal year. Because the ACS staff and a majority of the three-person Board are employees of the Department, many of the planning and oversight activities are carried out informally within the Department. However, in our opinion, the Board should hold sufficient formal meetings during the year to document how it is discharging its responsibilities to manage and direct ACS.

In addition, the Board did not approve a complete operating budget for the corporation's 2001-02 fiscal year.

Budgetary controls are important because they authorize a whole year's transactions in terms of expected results before the fiscal year begins.

The budget also provides a way of analysing results to determine if corrective action is necessary. It allows the Board to hold management accountable for the results of operations. In order for the budgetary process to work, the Board needs to approve a complete budget for ACS in advance.

6. **We recommend that the Board of Directors hold sufficient formal meetings during the year to document how it is discharging its responsibilities to manage and direct ACS.**

7. **We recommend that the Board of Directors annually approve a complete operating budget for ACS.**

Saskatchewan Crop Insurance Corporation

The Saskatchewan Crop Insurance Corporation (SCIC) is established under *The Crop Insurance Act* (Act) to provide insurance to grain and livestock producers under the Canada–Saskatchewan Crop Insurance Program. SCIC provides insurance and income support to grain and livestock producers for crop failures due to weather-related and other natural perils. Under the program, SCIC guarantees a minimum crop yield to producers. Premiums for this program are cost-shared by the producers, the Government of Canada, and the Government of Saskatchewan. This program provides income support to producers because the federal and provincial governments share in the costs of the program. Producers decide on specific insurance coverage options. Based on an individual producer’s coverage options, SCIC calculates premiums that the producer must pay to cover the risk of loss.

In 2002, SCIC had premium revenue of $225.2 million, other revenues of $36.2 million, indemnities of $331.4 million, expenses of $29.5 million, and reinsurance premiums ceded of $28.5 million. At March 31, 2002, SCIC held assets of $172.5 million. In 2002, producers paid premiums of $67.0 million, and both the Government of Canada and the Government of Saskatchewan each paid $79.1 million.

SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Fund). Annually, SCIC pays money to the Fund. Under certain circumstances, for example, when claims exceed the net assets of SCIC, the Fund pays money to SCIC. Both the federal and the provincial government participate in SCIC's reinsurance program.

In 2002, the Fund had reinsurance premium revenue of $15.1 million and had no expenses. At March 31, 2002, the Fund held assets of $119.5 million. Financial statements for SCIC and the Fund are included in SCIC's 2001-02 Annual Report.

Key risks the Corporation faces

Under the Act, SCIC is responsible for administering the federal/provincial crop insurance program. To assess SCIC's performance, it is important for legislators and the public to understand SCIC's vision, mission, and how it manages its key risks.

The SCIC has documented its strategic plan including its mandate, mission, values, goals, and objectives. The SCIC's *Annual Report 2001/2002* sets out much of this information. Also, in March 2002, SCIC launched its web site (www.saskcropinsurance.com). The web site has information about SCIC and its services. However, SCIC does not make public the risks its faces and how it manages those risks. We encourage SCIC to provide such information in its annual report and/or on its web site.

The crop insurance program provides producers with a tool to manage their risk of crop loss due to natural perils.[1] The program provides protection to producers for yield losses. The insurance protection provided to a producer depends on the:

- average long-term individual producer yield for the crop;
- forecast price that the crop will sell for during the year as determined by the Government of Canada; and
- producers' selected level of coverage. Producers can choose a coverage level of 50%, 60%, 70%, or 80%.

For example, if a producer plans to grow 100 acres of hard red spring wheat, the long-term average yield is 30 bushels per acre, the forecast

[1] The Crop Insurance Regulations define crop insurance as insurance against loss of an insured crop caused by drought, flood, hail, wind, frost, lightning, excessive rain, snow, hurricane, tornado, wildlife, accidental fire, insect infestation, or plant disease.

price is $4.33 per bushel, and the producer selects 70% coverage, the producer will have insurance protection of $9,093.

Through its insurance programs, SCIC stabilizes producers' incomes in case of yield losses. SCIC does not insure producers for the risks associated with fluctuating commodity prices and the effects of lower coverage in times of depressed commodity prices.

To carry out our work, we must understand the risks facing SCIC. We think sharing our understanding with the legislators and the public will help them better understand and assess SCIC's performance. To identify its key risks, we reviewed relevant literature on insuring agriculture crops and various documents and reports prepared by SCIC and the Department. We discussed our understanding of the key risks with management and confirmed that we have identified the right risks.

To be successful, SCIC needs to ensure that:

- the crop insurance program is responsive to producers' needs and provides producers with an acceptable level of insurance;
- its premium rate setting process is fair and equitable;
- the premiums for the crop insurance program are accurately calculated and communicated to all parties; and
- it adjusts producer claims fairly, quickly, and accurately.

In 1998-99, we assessed the adequacy of SCIC's claims adjusting processes. We wanted to determine if SCIC had adequate systems and practices to adjust claims fairly, quickly, and accurately. We reported our findings and conclusions in our 1999 Spring Report. We concluded that SCIC's rules and procedures to adjust claims are adequate. However, we make five recommendations to help SCIC improve its rules and procedures to keep pace with program and technology changes. In 2000-2001, we did follow-up work to see how SCIC is progressing in implementing the recommendations we made in our 1999 Spring Report. We report our conclusions and findings in our 2001 Fall Report – Volume 2.

We have not yet assessed how well SCIC is managing its other key risks. The following sections briefly explain each of the above risks.

Responsive program

Crop production is dependent on weather conditions. In Saskatchewan, extreme weather conditions and limited irrigation systems greatly affect crop production. To meet this challenge, producers in Saskatchewan continually experiment with different methods of farming and different crops. The crop insurance program must respond to the needs of producers to be an effective risk management tool for producers. To be responsive, the crop insurance program needs to provide stability to the agricultural industry, support diversification into new crops, and promote industry expansion. More producers are likely to participate when insurance programs are responsive to the producers' needs. Higher producer participation could reduce the need for ad hoc income support programs which are expensive.

SCIC must work with the agricultural and insurance industries to identify new insurable crops and propose responsive changes to the insurance of existing crops. For example, SCIC needs to monitor the impact of biotechnology on crop production (e.g., long-term yield) and how it may affect its program.

As stated earlier, individual producers' insurance protection depends on long-term average yields and forecasted crop prices. To ensure that individual producers have appropriate protection, SCIC must work with producers to develop and maintain producers' production data. SCIC must obtain sufficient and appropriate data prior to providing coverage for new crops. SCIC must also work with the producers and the federal and provincial governments to ensure that crop price forecasts are current and reflect estimated worldwide supply and demand estimates of insurable crops.

Management told us that SCIC works with the agricultural and insurance industry to identify new crops to insure. In 2002, SCIC introduced the Forage Rainfall Program to provide insurance for pasture lands and the Annual Crop Rainfall Pilot Program to explore new insurance tools in response to the dry growing conditions. Also, management told us, SCIC continues to research methods that improve the determination of producers' crop growing capabilities. For example, management told us, as a result of its research to improve producers' growing capabilities, SCIC made changes to insurance coverage for chickpeas, dry beans, and tame hay. SCIC also plans to monitor crop production input costs, crop prices, and changes in crop growing conditions.

Sound premium setting process

SCIC's insurance program is intended to break even over time while recognizing annual volatility in loss experience. To ensure that its insurance program is financially sound, SCIC must have a rigorous premium-setting process. A rigorous premium-setting process involves gathering and maintaining appropriate claims experience data, cumulative loss ratios both for individual crops and combined for all crops, expected provincial demographic changes, and anticipated long-term climate changes. SCIC must continually update such data and seek regular actuarial assessment to ensure that the premium rates are appropriate for a self-sustaining insurance program. Because federal and provincial governments pay a portion of the total required premium, SCIC must inform both governments what they may be expected to pay.

In the insurance industry, it is difficult to assess premium rates for all individuals. Accordingly, insurers pool clients risks based on geographical areas or type of similar clients to determine premium rates for a group. While insurance premiums within those groups have some cross-subsidization of premiums, insurers do not generally cross-subsidize premiums between different groups.

To ensure that its premium setting process is fair, SCIC must ensure that it does not subsidize premiums between different groups of producers. Also, it must make public its cross-subsidization policy, if any. SCIC must ensure crop producers in each group pay the right premiums to cover the risk. SCIC must also carry an appropriate level of reinsurance to recover large losses or weather related catastrophe. An inappropriate level of reinsurance could result in an urgent need for more resources in the event of a catastrophe

SCIC seeks actuarial advice on premiums and coverage. Management told us SCIC has adequate systems to gather and maintain data to make premium rate decisions. Also, management told us it regularly monitors cumulative claims to premium ratios for all its programs and has a reinsurance program.

Accurate and acceptable premiums

SCIC must have systems and practices to ensure that it calculates accurate premiums for producers based on the options they chose for their coverage. If premium calculations are not accurate, SCIC may incur losses despite its rigorous rate-setting process or producers may not use the program because of high premiums. The federal and provincial governments also need to know that the premiums they must pay are accurate and ensure a balance between income support provided to the crop insurance program and other agricultural income support programs.

SCIC must monitor changes in farm management practices to ensure that insurance risks reflect good farming practices. SCIC must determine premiums based on risks identified for individual producers (e.g., premium discount/surcharge based on individual's claim history).

Also, SCIC must ensure it has adequate infrastructure capacity (computer systems) to service its clients. SCIC needs adequate computerized systems for maintaining data and for providing reliable and timely service to its clientele. If SCIC does not have adequate computer systems, it may calculate premiums incorrectly resulting in loss of revenue and public confidence.

SCIC has adequate systems and practices to accurately calculate premiums for individual producers. Management told us SCIC regularly monitors the risks of crop loss and changes in farm management practices. Also, SCIC staff are available to discuss specific farming practices with any crop producer who so desires. Management also told us that SCIC regularly assesses the adequacy of its computerized systems and seeks resources to make changes when necessary.

Accurate, quick, and fair claims adjusting

SCIC needs to ensure that it adjusts producers' claims for crop losses accurately, quickly, and fairly. The claims adjusting process determines a producer's loss. Inadequate rules and procedures for adjusting claims can result in increased premiums, reduced insurance coverage, incorrect indemnities, and loss of producer and public confidence.

SCIC should have a clear framework, which outlines its culture and attitude toward adjusting claims. The framework should include an internal communication strategy and methods of directing and monitoring management's rules and procedures for adjusting claims. SCIC needs adequately trained staff to adjust claims fairly, accurately, and timely. SCIC should have documented policies and procedures for adjusting claims and a strategy for communicating these policies and procedures to staff. Also, SCIC should also have a system to ensure compliance with the approved policies and procedures for adjusting claims.

As stated earlier, we have audited SCIC's claims adjusting systems and practices in the past. We found SCIC has an adequate system for adjusting claims accurately, quickly, and fairly.