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Executive summary

The Department of Environment and Resource Management's mandate is to manage, enhance, and protect Saskatchewan's natural and environmental resources and sustain them for future generations. In this chapter, we report the results of our audits of the Department, its special purpose funds, and its Crown agencies.

We report that the Department needs better rules and procedures to safeguard and control its assets. It needs to improve its internal reports to monitor its activities. Also, it needs to follow its established rules and procedures to properly protect its capital assets from loss or theft. In addition, it needs to prepare a complete contingency plan to recover from computer system failures or destruction.

The annual report of the Department continues to improve. However, we recommend that the Department further improve its annual report. The Department should also prepare a report on the operations of its special purpose funds and make that report public.

The Department published incorrect financial statements for the Forest Fire Contingency Fund. These financial statements overstate revenue, the annual surplus, and net assets by \$34 million and understate its liabilities by \$34 million.

We continue to report that the Operator Certification Board needs adequate rules and procedures to ensure that it records all application fees it receives. Because the Board does not know whether it recorded all application fees received, we cannot determine whether the Board's financial statements are reliable.

We also encourage the Department to prepare financial statements showing the total assets, liabilities, revenues, and expenses that are the responsibility of the Minister of Environment and Resource Management and the Department. These financial statements would improve public accountability and decision making.

Introduction

Effective April 1, 2002, Cabinet changed the name of the Department of Environment and Resource Management (Department) to the Department of Environment. The Department is responsible for managing, enhancing, and protecting the Province's natural and environmental resources and sustaining them for future generations. Information about the Department's mandate and its organizational structure are available at the Department's web site (<http://www.serm.gov.sk.ca/>).

For the year ended March 31, 2002, the Government's summary financial statements show environment and natural resource expenditures of \$156 million. The following table shows the expenditures of government agencies for environment and natural resources.

| (in millions of dollars) | |
|--|---------------|
| Department of Environment and Resource Management (2001-02 Public Accounts – Volume 2) | \$ 137 |
| Deduct expenditure shown as: | |
| Economic development related to forests | (12) |
| Add expenditures incurred by: | |
| Saskatchewan Water Corporation | 20 |
| Forest Fire Contingency Fund | 6 |
| Centenary Capital Fund | <u>5</u> |
| Environment and Resource Management expenditures per the Government's Summary Financial Statements | <u>\$ 156</u> |

The Department received \$137 million from the General Revenue Fund for its programs. Also, the Department collected revenue of \$40 million. The major sources of revenue are licence and permit fees for fishing, gaming, and forestry and non-refundable deposits on beverage containers. In addition, the Department collected revenue and incurred expenses through its special purpose funds listed on page 340.

The following shows the Department's major programs and spending reported in the *Public Accounts 2001-02: Volume 2: Details of Revenue and Expenditure* (2001-02 Public Accounts – Volume 2) (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>).

Chapter 14 – Environment and Resource Management

| | <u>Original Estimates</u> | <u>Actual</u> |
|---|---------------------------|---------------|
| | (in millions of dollars) | |
| Forest Fire Management | \$ 38 | \$ 44 |
| Field Operations and Land Management | 42 | 42 |
| Forestry, Fish, and Wildlife | 23 | 23 |
| Environmental Protection | 12 | 13 |
| Administration | 13 | 13 |
| Other | <u>2</u> | <u>2</u> |
| | <u>\$ 130</u> | <u>\$ 137</u> |

The Department is responsible for managing the following special purpose funds:

- ◆ Commercial Revolving Fund;
- ◆ Fish and Wildlife Development Fund;
- ◆ Forest Fire Contingency Fund; and
- ◆ Resource Protection and Development Revolving Fund.

The Department is also responsible for the following Crown agencies:

- ◆ Operator Certification Board;
- ◆ Water Appeal Board; and
- ◆ Saskatchewan Wetland Conservation Corporation (effective October 1, 2002 the Saskatchewan Watershed Authority).

The Department does not make information available about the Department's total revenues and expenditures and what it owns (assets) and owes (liabilities) in any one document. We think it should. We prepared Exhibit 1 to this chapter to show legislators the total revenues and expenses, and assets and liabilities controlled by the Department. The Public Accounts 2001-02 – Volume 2 contains information about some of the Department's revenues and spending. The financial statements of the Department's special purpose funds will be included in *The Financial Statements Compendium 2001-2002*.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for the Department, its special purpose funds, and its Crown agencies for the year ended March 31, 2002.

Our Office worked with Mintz & Wallace – Chartered Accountants, the appointed auditor of the Operator Certification Board, and PricewaterhouseCoopers LLP, the appointed auditor of the Saskatchewan Wetland Conservation Corporation. To complete our work, 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>). We formed the following opinions.

In our opinion, for the year ended March 31, 2002:

- ◆ **the Department and its agencies had adequate rules and procedures to safeguard and control their assets, except for the matters described in this chapter;**
- ◆ **the Department and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and**
- ◆ **the financial statements of the Department's special purpose funds and agencies are reliable, except for the Forest Fire Contingency Fund and the Operator Certification Board.**

In this chapter, we also include our assessment of the Department's annual report for the year ended March 31, 2002 and pro forma financial statements that we prepared to show the total assets and liabilities, and revenues and expenses that the Department controls.

Internal reporting needs improvement

The Department needs better internal reports to monitor its activities.

The Department has established adequate rules and procedures to prepare internal financial reports. However, employees did not always follow the established rules and procedures to prepare internal financial reports. For example, reports did not include a comparison of planned and actual results for the current period including a written explanation of significant differences. The Department's rules and procedures require such a comparison.

The Department's monthly financial reports do include a comparison of planned results with forecasted results for the year with explanations of significant differences. However, the explanations are not always sufficient to adequately explain the differences.

Also, the Department needs to define its operational and compliance reporting requirements. Operational reports would show the effectiveness of programs (i.e., what the Department expected to accomplish and its progress towards those expectations). Compliance reports would describe the Department's compliance with its legislative and related authorities (e.g., the law and policy manuals).

We reported this matter in our 2001 Fall Report – Volume 2 and previous reports. The Standing Committee on Public Accounts (PAC) considered this matter most recently in January 1999 and concurred with our recommendations.

We continue to recommend:

- ◆ The Department define and document its operational and compliance reporting requirements.
- ◆ The Department follow its established rules and procedures for preparing all of its internal financial reports.

Management told us it continues to work on defining and documenting its operational and compliance reporting needs, focusing on reporting requirements with respect to the Department's established goals and objectives. Management also told us it continues to work towards preparing internal financial reports in accordance with its established rules and procedures.

Control over capital assets needed

The Department needs to ensure that staff comply with rules and procedures to record, safeguard and control its capital assets (equipment, buildings, furniture, and fixtures) and report on use of its capital assets publicly.

The Department has established appropriate rules and procedures for maintaining complete records of capital assets. The established rules and procedures require staff to identify and record the capital assets acquired or disposed of during the year, and to reconcile regularly the capital assets records to the financial records. The Department manages capital assets with a net book value totalling \$37 million.

During the year, staff did not always comply with the established rules and procedures for recording capital assets. Staff did not identify and record capital assets totalling \$0.5 million acquired during the year. Also, staff incorrectly recorded \$2.5 million of fully amortized capital assets as disposals in the Department's financial records. As a result, the Department's capital asset records did not agree with its financial records.

The Department's established rules and procedures also require staff to obtain approval for the transfer of assets from one location to another and to record the transfers in the capital asset records. Staff did not always follow the established rules and procedures. Staff did not always obtain written authority to transfer capital assets from one location to another and the capital asset records did not properly show the location where the assets reside.

The Department faces increased risk that its capital assets may be lost or stolen without detection because of its inadequate capital asset controls. For example, by not recording all capital assets or not approving and recording the transfer of capital assets from one location to another, the Department has no records to use to detect if capital assets have been lost or stolen.

Adequate public information about the capital assets that a Government agency uses to provide public services should briefly describe the capacity of each major category of capital assets, the extent to which the use of capital assets achieved planned results, and the strategies used to

manage major risks of the key capital assets. Currently, the Department only provides some information about its capital asset purchases in its annual reports. The Department needs to provide more information about its capital assets in its annual report.

1. We recommend that the Department:

- ◆ **ensure staff follow the Department’s established rules and procedures to control the Department’s capital assets; and**
- ◆ **describe the capacity of each major category of capital assets, the extent to which the use of capital assets achieved planned results, and the strategies used to manage major risks of the key capital assets in its annual report.**

Management told us it is working on capital asset processes and procedures, that include ensuring that all staff are made aware of the importance of proper documentation and record keeping with respect to the capital assets managed by the Department. Management also told us it plans to move onto the government wide system for capital assets in the second phase of the Multi-Informational Database Applications system project. Management told us it expects this system will give it a well supported tool for the financial management of its capital assets.

Complete contingency plan needed

The Department needs a complete contingency plan for its information systems. A contingency plan is important because the Department’s operations depend on the reliability of its information systems. The Department needs a complete contingency plan covering both its old and new computer systems to ensure that it can operate effectively in case its computer systems fail or are accidentally destroyed.

A contingency plan sets out the procedures needed to ensure the continuity of operations and the availability of data. These plans should cover all significant information technology (IT) operations based on the importance of each program and service. An organization’s contingency plan is an important part of its business interruption plan, which sets out

how the organization will recover from an unplanned business interruption.

A good contingency plan would document the following:

- ◆ Significant programs and data (i.e., a risk analysis);
- ◆ Procedures for making electronic copies (backups) of the significant system programs and data;
- ◆ Procedures for the safekeeping of backups;
- ◆ Recovery time for each system;
- ◆ Arrangements to replace or rent essential IT equipment;
- ◆ Procedures to periodically test the contingency plans; and
- ◆ Training requirements for staff to carry out contingency plan procedures when needed.

Management should regularly review and approve the contingency plan. Management should also test the contingency plan regularly to ensure it works.

The Department has documented some contingency plan procedures for backing up programs and data for all major systems. However, it needs a complete written and tested contingency plan for all of its information systems.

2. **We recommend that the Department prepare a complete written information technology contingency plan based on a risk analysis and test that plan to ensure that it works.**

Annual report needs improvement

To assess performance of public sector agencies, Members of the Legislative Assembly and the public need adequate summary information about public agencies' plans and about the achievement of those plans. Annual reports can provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now, and what it plans to do. In addition, to ensure that the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year-end. We reviewed the

Department's 2001-02 annual report. We assessed the adequacy of the information in the report against the above criteria.

The Department's annual report clearly outlines the Department's vision, mandate, goals, objectives, and its activities to achieve its objectives. The annual report also describes the risks the Department must manage to be successful and some of the strategies it uses to do so.

The Department's annual report includes a good discussion of some of the key performance targets it plans to achieve. However, the annual report needs to include key performance targets for all of its objectives and information on its progress towards achieving those targets. A complete discussion and analysis about its performance targets and its progress towards those targets would help readers to assess the Department's performance. The Department also needs to continue refining the information that it provides about its future intentions or outlook.

The annual report does not contain the Department's complete financial statements. It provides some unaudited financial information about the Department's revenues and expenses, but does not provide any information about what the Department owns or owes. To encourage the Department to prepare complete financial statements, we have prepared pro forma financial statements for the Department (see Exhibit 1).

The Department does not have an adequate report on the operations of its special purpose funds. The Department's annual report includes some information about its special purpose funds. However, the Department should prepare a report on each of its special purpose funds including the fund's audited financial statements, discussion of the fund's goals, key performance targets, and progress towards achieving these targets. Also, this report should be made public.

We reported this matter in our 2001 Fall Report – Volume 2 and previous reports. PAC considered this matter most recently in September 2001. It concurred with our recommendation.

We continue to recommend that the Department improve its annual report.

- 3. We recommend that the Department prepare a report on the operations of its special purpose funds and make that report public.**

Forest Fire Contingency Fund

Section 8.1 of *The Prairie and Forest Fires Act, 1982* established The Forest Fire Contingency Fund (Fund) effective April 1, 2001. The Fund was established for the purposes of financing the costs related to fighting wildfires in excess of 100 hectares (escaped fires.) The Department administers the Fund. The Department charges the Fund all costs of fighting escaped fires including the costs that were incurred before the fire escaped.

For the year ended March 31, 2002, the Fund's financial statements report revenues of \$40 million, expenses of \$6 million and net assets of \$34 million. For the reasons described below, those financial statements are incorrect.

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 assess the performance of government agencies. Agencies use financial statements to demonstrate their accountability for the public resources entrusted to them and provide information useful in evaluating their financial performance. To assess their performance, MLAs and the public need government agencies to follow rigorous accounting rules that report their performance in a consistent and comparable manner. They also need timely information.

When government agencies 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 agency's financial performance. Also, incorrect financial statements increase the risk that MLAs and the public will make incorrect decisions.

In June 2001, The Canadian Institute of Chartered Accountants (CICA) 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 concerning the reliability of the financial statements of the Fund.

Reliability of the financial statements

The Fund's financial statements overstate the Fund's revenue and annual surplus for 2002 by \$34 million. Also, the financial statements understate the Fund's liabilities (what it owes to others) by \$34 million and overstate the Fund's net assets (surplus to date) by \$34 million. This gives readers of the financial statements the wrong message. The message given is that revenues exceed expenses by \$34 million and that the Fund has extra money on hand which it no longer needs to pay for future escaped fire costs. In fact, revenue is \$34 million less than reported and the Fund must use \$34 million to pay for future escaped fire costs.

The errors in the financial statements result from the Department incorrectly recording money received from the General Revenue Fund. It records this money as revenue immediately regardless of when the Department incurs the escaped fire costs. Generally accepted accounting principles require the Department to record money received that is restricted in purpose (escaped fires) as an amount owing to the General Revenue Fund until the money provided is used for the specific purpose or returned. *The Prairie and Forest Fires Act, 1982* only allows the Department to receive money for the Fund to pay for the costs of escaped fires. Therefore, the Department should record money received in advance of the Fund incurring escaped fire costs as a liability.

- 4. We recommend that the Department record the money received from the General Revenue Fund (GRF) as a liability of the Forest Fire Contingency Fund until the Department incurs costs to fight escaped fires or until it returns the money to the GRF.**

Management told us that the financial statements are prepared in accordance with generally accepted accounting principles.

Operator Certification Board

The Operator Certification Board (Board) is established under *The Water Pollution Control and Water Works Regulations* (Regulations) to certify operators of water and sewage works. The Minister of the Department appoints the Board members.

For the year ended March 31, 2002, the Board's financial statements report revenues of \$45,000, expenses of \$36,000, and net income of \$9,000. At March 31, 2002, the Board held assets of \$20,000.

Board needs to ensure that it receives all application fees

The Board needs to establish rules and procedures to ensure that it receives all application fees.

The Board employs only one person to keep its books and records. In a small organization, it is often impossible to have adequate segregation of incompatible functions. That is to ensure that no one person is in a position to conceal errors or frauds. To reduce the risk of errors and frauds occurring without timely detection, small organizations often establish other control procedures to compensate for the lack of segregation of functions.

Currently, there is a lack of segregation of functions over application fees from waterworks operators applying for certification. The Board's administrator receives the operators' applications with the appropriate application fees, records the application fees, deposits the fees, reconciles the bank account, and prepares financial reports. The Board should have rules and procedures to compensate for the lack of segregation of functions over application fees (e.g., pre-numbered application forms and/or certificates, or a written contract with the Department to receive and record all revenue).

In 2002, the Board recorded application fees of \$35,000 from operators. However, we are unable to determine if the Board recorded all application fees it received.

We reported this matter in our 2001 Fall Report – Volume 2. PAC considered this matter most recently in February 2002 and concurred with our recommendation.

We continue to recommend that the Board establish rules and procedures to ensure that it receives all application fees.

The Board told us it continues to develop appropriate procedures to control application fees.

Reliability of the financial statements

The Board's financial statements for the year ended March 31, 2002 may not be reliable.

As explained above, the Board did not have adequate rules and procedures to ensure that it receives all application fees. As a result, we could not determine whether the Board had recorded all revenue in its financial statements for the year ended March 31, 2002.

Department of Environment and Resource Management financial statements

We encourage the Department to include financial statements in its annual report that show the overall financial position and results of operations of the Department. The financial statements would include all of the assets, liabilities, revenues, and expenses that the Department controls. These statements are necessary to ensure that the Department is properly accountable for its management of public resources.

The Department does not publish financial statements showing all of the assets, liabilities, revenues, and expenses that it controls. We think it should.

We have prepared pro forma consolidated financial statements for the Department (see Exhibit 1). We have done this 1) to encourage the Department to prepare complete financial statements and 2) to help the Legislative Assembly hold the Department accountable for managing the overall financial position and results of operations of the public resources

made available to protect the environment. We prepared the pro forma financial statements on the basis outlined in Exhibit 2.

Benefits of financial statements

The Minister of Environment and Resource Management is accountable to the Assembly for the overall financial position and the results of operations for managing and protecting our Province's natural and environmental resources. Financial statements for all of the Department's assets, liabilities, revenues, and expenses would help the Assembly to assess the Minister's overall financial management of Saskatchewan's natural and environmental resources. The financial statements would include all organizations that the Minister is responsible for, i.e., the Department, its four special purpose funds and three Crown agencies. These entities are listed in Note 3(a) to the financial statements set out in Exhibit 1.

Also, these financial statements would help the Minister and the Department's management to carry out their responsibilities. They need this information regularly to assess the Department's overall financial performance and to make informed decisions.

Developments outside Saskatchewan

Some governments (e.g., United States, Western Australia, Alberta) prepare financial statements for their departments. In Alberta, the Public Accounts contain the annual report of the Government of Alberta and the annual reports of each of its ministries. Each ministry's annual report includes consolidated ministry financial statements as well as individual financial statements of the applicable department and other entities making up the ministry. Each Minister is held accountable for the performance results compared to the desired results set out in the ministry's business plan.

We encourage the Department to publish financial statements showing the total assets, liabilities, revenues, and expenses that are the responsibility of the Minister of Environment and Resource Management and the Department. This will improve public accountability and decision-making.

We also reported a similar matter in our 2001 Fall Report – Volume 2 relating to the Department of Health. In February 2002, the Standing Committee on Public Accounts (PAC) considered this matter and did not concur with our recommendation. PAC noted that the Government currently provides financial accountability to the public through the Estimates, the Public Accounts, and the Mid-Year Report. In addition, the Government’s accountability project is currently addressing performance management and accountability. Also, PAC noted that the CICA might report on this issue.

Exhibit 1

Department of Environment and Resource Management

**Pro Forma
Consolidated Financial Statements
For the Year Ended March 31, 2002
(unaudited)**

**DEPARTMENT OF ENVIRONMENT AND RESOURCE MANAGEMENT
PRO FORMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at March 31
(unaudited)**

2002 2001
(in thousands of dollars)

FINANCIAL ASSETS

| | | |
|--|---------------|---------------|
| Due from General Revenue Fund (Note 4) | \$ 46,664 | \$ 12,149 |
| Accounts receivable (Note 5) | <u>9,302</u> | <u>9,267</u> |
| Total financial assets | <u>55,966</u> | <u>21,416</u> |

LIABILITIES

| | | |
|--|---------------|---------------|
| Accounts payable and accrued liabilities | \$ 11,799 | \$ 14,310 |
| Bank overdraft | 650 | 379 |
| Deferred revenue (Note 6) | 38,411 | 2,945 |
| Accumulated net expenditure of revolving funds | <u>4,309</u> | <u>2,684</u> |
| Total liabilities | <u>55,169</u> | <u>20,318</u> |

| | | |
|---|------------|--------------|
| Net financial assets (debt) (Statement 3) | <u>797</u> | <u>1,098</u> |
|---|------------|--------------|

| | | |
|--|---------------|---------------|
| Deferred revenue for capital assets (Note 6) | 12,000 | 12,000 |
| Tangible capital and other assets (Note 3c) | | |
| Tangible capital assets (Notes 3d and 7) | 36,904 | 35,860 |
| Inventory of supplies & prepaid expenses (Note 3e) | <u>744</u> | <u>547</u> |
| | <u>37,648</u> | <u>36,407</u> |

| | | |
|-----------------------------------|------------------|------------------|
| Accumulated surplus (Statement 2) | <u>\$ 26,445</u> | <u>\$ 25,505</u> |
|-----------------------------------|------------------|------------------|

Commitments (Note 12)

(See accompanying notes to the financial statements)

Statement 2

DEPARTMENT OF ENVIRONMENT AND RESOURCE MANAGEMENT
PRO FORMA
CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended March 31
(unaudited)

| | <u>Budget</u> (Note 11) | <u>2002</u> (in thousands of dollars) | <u>2001</u> |
|--|----------------------------|--|------------------|
| Revenue | | | |
| Transfers from the General Revenue Fund | \$ | \$ 147,838 | \$ 132,553 |
| Licenses, permits, and leases | | 22,282 | 22,628 |
| Service fees | | 27,684 | 20,257 |
| Transfers from other governments/ other organizations | | 6,314 | 7,604 |
| Other | | <u>1,572</u> | <u>1,321</u> |
| Total Revenue | | <u>205,690</u> | <u>184,363</u> |
| Expense | | | |
| Fire management and forest protection | | 50,958 | 40,084 |
| Operations | | 29,819 | 28,743 |
| Parks and special places | | 24,418 | 23,387 |
| Administration | | 13,293 | 13,058 |
| Forest management | | 14,605 | 12,819 |
| Environmental protection | | 11,996 | 10,849 |
| Fish and wildlife programs | | 7,193 | 6,743 |
| Wetland programs | | 2,441 | 2,544 |
| Policy and public involvement | | 1,864 | 1,793 |
| Sustainable land management | | 1,596 | 1,719 |
| Environment assessment | | 785 | 791 |
| Grants in lieu of taxes | | <u>264</u> | <u>213</u> |
| Total operating expense | | 159,232 | 142,743 |
| Transfers to the General Revenue Fund (Note 8) | | <u>45,518</u> | <u>39,871</u> |
| Total Expense | | <u>204,750</u> | <u>182,614</u> |
| Annual surplus | \$ | <u>940</u> | 1,749 |
| Accumulated surplus, beginning of year | | <u>25,505</u> | <u>23,756</u> |
| Accumulated surplus, end of year (Statement 1) | | <u>\$ 26,445</u> | <u>\$ 25,505</u> |

(See accompanying notes to the financial statements)

DEPARTMENT OF ENVIRONMENT AND RESOURCE MANAGEMENT
PRO FORMA
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (DEBT)
Year Ended March 31
(unaudited)

| | 2002 | 2001** |
|---|---------------------------|----------|
| | (in thousands of dollars) | |
| Annual surplus (deficit) | \$ 940 | \$ 1,749 |
| Purchase of tangible capital assets | (4,877) | |
| Amortization of tangible capital assets | 3,833 | |
| | (1,044) | |
| Acquisition of supplies inventory and prepaid expenses | ** | |
| Consumption of supplies inventory and prepaid expenses | ** | |
| | (197) | |
| Increase (decrease) in net financial assets | (301) | |
| Net financial assets (debt), beginning of year | 1,098 | |
| Net financial assets (debt), end of year (Statement 1) | \$ 797 | \$ 1,098 |

** information not readily available

(See accompanying notes to the financial statements)

DEPARTMENT OF ENVIRONMENT AND RESOURCE MANAGEMENT
PRO FORMA
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended March 31
(unaudited)

| | 2002 | 2001** |
|--|---------------------------|-----------|
| | (in thousands of dollars) | |
| Operating activities: | | |
| Transfers received from the General Revenue Fund | \$ 147,838 | \$ |
| Transfers received from other governments/ organizations | 6,314 | |
| Advances received for the Forest Fire Contingency Fund | 33,994 | |
| Advances received from SaskPower | 2,000 | |
| Service fees and other revenue received | 50,975 | |
| Salaries and benefits paid to employees | (72,935) | |
| Services and other operating costs paid to suppliers | (83,547) | |
| Transfers paid to General Revenue Fund | (45,518) | |
| | 39,121 | |
| Capital transactions: | | |
| Purchase of tangible capital assets | (4,877) | |
| Increase (decrease) in cash | 34,244 | |
| Cash position, beginning of year | 11,770 | |
| Cash position, end of year | \$ 46,014 | \$ |
| Cash position is comprised of the following: | | |
| Due from General Revenue Fund | \$ 46,664 | \$ 12,149 |
| Less bank overdraft | 650 | 379 |
| Total | \$ 46,014 | \$ 11,770 |

** information not readily available

(See accompanying notes to the financial statements)

DEPARTMENT OF ENVIRONMENT AND RESOURCE MANAGEMENT

PRO FORMA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

(unaudited)

1. Legislative Authority

The Department of Environment and Resource Management (now called the Department of Environment) operates under *The Natural Resources Act (Act)*. The Minister of Environment and Resource Management is responsible for the Department, its special purposes funds and all of its Crown agencies. According to the Act, the Minister and the Department are to protect, conserve, and develop renewable resources in a sustainable manner.

2. Mandate

The Department's mandate is to manage, enhance, and protect Saskatchewan's natural and environmental resources for conservation, social, economic, and recreation purposes, and to ensure they are sustained for future generations. The Department's annual report explains how it carries out its mandate.

3. Significant Accounting Policies and Reporting Practices

The Department is responsible for preparing these consolidated financial statements in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants (CICA). These financial statements are in accordance with CICA recommendations, except they include the Department's tangible capital assets on the Statement of Financial Position (SOFP). Currently, the CICA recommends showing information about tangible capital assets on a separate statement. The pro forma financial statements include the capital assets on the SOFP because that presentation results in better disclosure of the Department's total assets.

a) Reporting entity and consolidation principles

These consolidated financial statements include the accounts of the department, and the accounts of the following special purpose funds and Crown agencies that are accountable to, and are the responsibility of, the Minister of Environment and Resource Management. For further information, readers should refer to the individual financial statements of these funds and agencies that are prepared and submitted annually to the Legislative Assembly.

Special Purpose Funds

Commercial Revolving Fund
Fish and Wildlife Development Fund
Forest Fire Contingency Fund
Resource Protection and Development Revolving Fund

Crown Agencies

Operator Certification Board
Saskatchewan Wetland Conservation Corporation
Water Appeal Board

All of the Department's special purpose funds and Crown agencies are government service organizations. They are accounted for using the accounting policies described below. In addition, significant transactions and balances between these entities are eliminated.

In these financial statements, the term "Department" is used to collectively describe the activities of the entire reporting entity.

b) Accrual Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. This reflects transactions when they occur, rather than when they are settled.

c) Other assets

In the public sector, recognition and valuation of tangible capital assets and other non-financial assets are based on their service potential. For the most part, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the government. For government non-financial assets, the future economic benefit consists of their capacity to render service to further the Government's objectives.

d) Tangible capital assets

These financial statements report financial results on the expense basis. Accordingly, tangible capital assets, with a life exceeding one year, are amortized on a straight-line basis over their useful lives.

e) Inventory

Inventory consists of maps, wildlife manuals, parts, and other supplies. All inventories are valued at the lower of average cost and net realizable value.

f) Revenue

Government transfers (e.g., transfers from the General Revenue Fund (GRF)) are recognized as revenue in the period during which the transfer is authorized and any eligibility criteria are met. Amounts received for which goods or services have not been provided, the related expenses have not been incurred or eligibility criteria have not been met, are recorded as deferred revenue.

g) Employee pension and benefit costs

These financial statements do not reflect the cost of benefits that are paid for by the Department of Finance. This includes the employer's share of the costs related to the Government's pension plans (the Public Service Superannuation Plan (PSSP) and

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the Public Employees Pension Plan (PEPP)), the Canada Pension Plan, and Employment Insurance. Also, these statements do not include the employer's share of the costs related to the workers' compensation program, extended health care plans, dental plan, long-term disability plan and the life insurance plan.

h) Transfers to organizations

Authorized transfers under cost-shared arrangements are recognized as expenditures when the eligibility criteria, if any, have been met by the recipient.

Grants are recorded as expenses when they have been approved and the eligibility criteria, if any, have been met by the recipient.

4. Due from General Revenue Fund

The Department has \$ 4.6 million (2001-\$ 4.3 million) in bank accounts included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan. Interest is calculated and paid by the General Revenue Fund (GRF) on a quarterly basis to the bank account using the Government's thirty-day borrowing rate and the average daily account balance. The Government's average thirty-day borrowing rate for 2001-02 is 3.41% (2000-01 – 5.59%). The remainder of the Department's money is on deposit with the General Revenue Fund (GRF) and no interest is received on this money.

5. Accounts Receivable

| | <u>2002</u> | <u>2001</u> |
|---|---------------------------|----------------|
| | (in thousands of dollars) | |
| Beverage container environmental charges | \$3,700 | \$2,286 |
| Leases | 2,353 | 3,500 |
| Transfers from other governments/ organizations | 1,521 | 1,835 |
| Forestry fees | 802 | 949 |
| Licenses | 400 | 440 |
| Other | <u>526</u> | <u>257</u> |
| | <u>\$9,302</u> | <u>\$9,267</u> |

6. Deferred Revenue

Included in deferred revenue is \$4 million (2001-\$2 million) received from SaskPower in advance pursuant to an agreement. Under the agreement the Department agrees to undertake certain forest management activities that will enable SaskPower to reduce greenhouse gas emissions.

Deferred revenue also includes \$34 million (2001-nil) received in advance from the General Revenue Fund to finance the expenses related to fighting wildfires in excess of 100 hectares.

In addition, deferred revenue for capital assets includes \$12 million (2001-\$12 million) of capital funding from the General Revenue Fund which is used to acquire capital assets and will be recognized as revenue over the period the capital assets are amortized.

7. Tangible Capital Assets

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery & Equipment</u> (in thousands of dollars) | <u>Computers</u> | <u>Office Equipment & Furniture</u> | <u>Total 2002</u> |
|--|------------------|------------------|---|------------------|---|-----------------------|
| Estimated useful life | Indefinite | 20 yrs | 5-10 yrs | 3 yrs | 5-10 yrs | |
| Cost, beginning of year | \$ 20,491 | \$ 170 | \$ 27,703 | \$ 4,145 | \$ 1,489 | \$ 53,998 |
| Additions | 773 | 234 | 2,240 | 1,338 | 292 | 4,877 |
| Disposals | --- | --- | 944 | 2,150 | 55 | 3,149 |
| Cost, end of year | <u>21,264</u> | <u>404</u> | <u>28,999</u> | <u>3,333</u> | <u>1,726</u> | <u>55,726</u> |
| Accumulated amortization, beginning of year | --- | 11 | 15,385 | 2,108 | 634 | 18,138 |
| Amortization | --- | 20 | 1,822 | 1,813 | 178 | 3,833 |
| Disposals | --- | --- | 944 | 2,150 | 55 | 3,149 |
| Accumulated amortization, end of year | <u>---</u> | <u>31</u> | <u>16,263</u> | <u>1,771</u> | <u>757</u> | <u>18,822</u> |
| Net book value | <u>\$ 21,264</u> | <u>\$ 373</u> | <u>\$ 12,736</u> | <u>\$ 1,562</u> | <u>\$ 969</u> | <u>\$ 36,904</u> |

** 2001 information not readily available

8. Transfer to General Revenue Fund

Transfers to the General Revenue Fund (GRF) are revenues that the Department collects and must deposit into the GRF.

9. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards, and commissions related to the Department by virtue of common control or significant influence by the Government of Saskatchewan.

Routine operating transactions with related parties are settled at the agreed upon rates charged by those agencies and are settled on normal trade terms. These transactions are as follows (in thousands of dollars):

| | <u>2002</u> | <u>2001</u> |
|---------------------|-----------------------------------|-------------|
| Revenue | information not readily available | |
| Expenses | | |
| Accounts receivable | | |
| Accounts payable | | |

Other transactions and amounts due to or from related parties are disclosed separately in these financial statements and the notes thereto.

10. Pension Plans

Employees of the Department participate in one of two Government sponsored pension plans: the Public Service Superannuation Plan (PSSP), a defined benefit plan (closed to new members in 1977); and the Public Employees' Pension Plan (PEPP), a defined contribution plan.

The pension expense for employees that are members of PEPP equals a fixed percentage of employee salaries. This cost is paid from the Department of Finance's appropriation.

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Like all departments, Department of Environment and Resource Management does not pay for the cost of PSSP. The Department of Finance pays from its appropriation, on behalf of the Department of Environment and Resource Management, the pension allowances to retired employees when the allowances become due. No liability for pension plans relating to the Department of Environment and Resource Management's employees has been recorded in these financial statements.

11. Budget

The Department did not prepare a consolidated budget for 2002 that includes all of the entities it controls. The Government's Estimates only include budget figures for the Department. Individual entities prepare budgets for their own operations. For a comparison of budget to actual amounts for entities in the reporting entity, readers should refer to Volume 2 of the Public Accounts, the Financial Statements Compendium, and to the individual entities' financial statements.

Financial resources were administered by the Department in accordance with the legislation.

12. Commitments

The Department's project commitments at year end are as follows:

| | (in thousands of dollars) |
|---------|---------------------------|
| 2002-03 | \$1,339 |
| 2003-04 | 1,310 |
| 2004-05 | 650 |
| 2005-06 | 600 |
| 2006-07 | <u>150</u> |
| | \$4,049 |

13. Fair Value of Financial Instruments

The carrying amounts of the due from General Revenue Fund, accounts receivable, accounts payable and accrued liabilities, and bank overdraft approximate the fair value due to their immediate or short-term nature.

The fair value of the accumulated net expenditure of revolving funds has not been provided because it is not practicable to determine the fair value with sufficient reliability.

14. Internally Restricted Entities

The net assets of the special purpose funds and Crown agencies included in these financial statements (see Note 3a) are internally restricted and their resources can only be used to finance their particular operations or programs. An aggregate summary of the financial position and operating results of these organizations is as follows:

| | <u>2002</u> | <u>2001</u> |
|----------------------|---------------------------|-----------------|
| | (in thousands of dollars) | |
| Financial Assets | \$ 41,295 | \$ 6,443 |
| Capital Assets | 25,215 | 23,695 |
| Liabilities | <u>(40,050)</u> | <u>(4,643)</u> |
| Net Assets | <u>26,460</u> | <u>25,495</u> |
| Revenue | 29,154 | 22,549 |
| Expenses | <u>(28,189)</u> | <u>(20,835)</u> |
| Surplus for the year | <u>\$ 965</u> | <u>\$ 1,714</u> |

15. Expenses By Object

| | <u>2002</u> | <u>2001</u> |
|--|---------------------------|-------------------|
| | (in thousands of dollars) | |
| Salaries and benefits | \$ 72,935 | \$ 65,238 |
| Supplies and services | 32,767 | 27,641 |
| Contractual services | 27,863 | 26,736 |
| Transfers to other governments/organizations | 9,244 | 8,412 |
| Travel and business | 9,133 | 8,138 |
| Amortization | 3,833 | 3,993 |
| Repairs and maintenance | 1,458 | 1,384 |
| Communications | 708 | 810 |
| Other | 1,291 | 391 |
| Total | <u>\$ 159,232</u> | <u>\$ 142,743</u> |

16. Reconciliation to Summary Financial Statements

(in thousands of dollars)

| | |
|--|-------------------|
| Summary Financial Statements (SFS) environment expenditure | \$ 156,393 |
| Difference in tangible capital asset and inventory accounting policies | (317) |
| Inter-entity expense eliminations and adjustments not recorded in the SFS | <u>3,156</u> |
| Total expense per Environment and Resource Management financial statements (Statement 2) | <u>\$ 159,232</u> |

Exhibit 2 – Preparing the financial statements

We prepared the financial statements from information that was readily available. Information not readily available has been omitted. These pro forma financial statements have not been audited.

Basis of accounting

The accounting and reporting principles used to prepare the pro forma financial statements in Exhibit 1 are based on recommendations of the Public Sector Accounting Board (PSAB) of The Canadian Institute of Chartered Accountants (CICA), except that the pro forma financial statements include the Department's tangible capital assets on the statement of financial position. Currently, the CICA recommends showing information about tangible capital assets on a separate statement. We prepared pro forma financial statements this way because the PSAB is expected to issue new guidance soon that will require the inclusion of tangible capital assets in the statement of financial position.

Accounting for transactions with the GRF

The Department of Environment and Resource Management receives annual appropriations from the General Revenue Fund (GRF) to pay for its operating and capital costs. The pro forma consolidated financial statements reflect GRF appropriations for operating costs as revenue of the Department equal to the amount of expenses incurred. The financial statements reflect the GRF appropriation for capital costs as revenue over the period the capital assets are amortized.

Costs borne by other government organizations

These financial statements are useful and a good first step. However, they would be more useful if the Government allocated all costs incurred by the Department to the Department. To properly understand and assess the Department's performance, it is important for the accounting information collected and presented about the Department's activities to be complete and accurate. Information about the full cost of programs is needed.

Governments commonly direct their central agencies to pay for certain costs on behalf of individual agencies. For example, on behalf of several departments and agencies, the Department of Finance incurs the costs of the employer's share of required contributions to employee pension plans and premiums for the Canada Pension Plan, Employment Insurance, and Workers' Compensation Program. The Government could easily allocate these direct costs to the agencies to which they relate. Other indirect costs may be more difficult to allocate. These indirect costs are borne by the internal agencies that provide services for many agencies, such as legal services, banking services, central accounting and computer services, and human resource services.

One very significant cost that is not reflected as an expense of any department or Crown agency is the annual pension expense for the Public Service Superannuation Plan. This cost exceeds \$100 million each year.

Another significant item is the debt that the Department of Finance incurs for general government purposes, and the interest costs on that debt. Excluding debt and interest costs from the financial statements of departments reduces their usefulness.

Financial statements would be most useful if all of the Department's costs were recognized. At a minimum, costs not recognized by the Department should be disclosed in the notes to its financial statements.

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