Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

2002 Fall Report
Volume 2

Provincial Auditor Saskatchewan

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Vision
We envision effective, open, and accountable government.

Mission
We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability.

Provincial Auditor Saskatchewan

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December 2, 2002

The Honourable P. Myron Kowalsky
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2002 Fall Report – Volume 2*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14.1 of *The Provincial Auditor Act.*

Respectfully yours,

Fred Wendel, CMA, CA
Provincial Auditor

/dd

Our 2002 Reports

In 2002, our Office issued five other public reports to the Legislative Assembly. Following is a list of those reports. If you wish to obtain copies of these reports, or wish to discuss or receive presentations on the contents of any of these reports, please:

- visit our website at:
  http://www.auditor.sk.ca/
- contact our Office by Internet e-mail at:
  info@auditor.sk.ca
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Our Reports:

- *Report to the Legislative Assembly of Saskatchewan on the Financial Statements of Crown Agencies for Years Ending in the 2001 Calendar Year : April 2002;*
- *Report to the Legislative Assembly of Saskatchewan on the 2001 Financial Statements of CIC Crown Corporations and Related Entities : April 2002;*
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan : 2002 Spring Report* (May 2002);
- *Annual Report on Operations For the Year Ended March 31, 2002* (June 2002); and
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan : 2002 Fall Report – Volume 1* (September 2002).

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Observations

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Introduction

This report is focused primarily on government agencies that have a March 31, 2002 year-end. The report sets out the conclusions, findings, and recommendations of our Office for nearly 140 government agencies. For the most part, these agencies have adequate financial management practices to safeguard public resources. However, some serious problems persist at a few agencies and changes are required.

To successfully bring about change, agencies require senior management's commitment, a learning culture, good risk management practices, and public accountability. The Department of Justice and the Public Trustee showed these qualities and brought about important changes to their management of public money.

We also report several agencies that need sustained commitment improve their practices for managing public money: the Department of Intergovernmental and Aboriginal Affairs, First Nations Fund, Saskatchewan Liquor and Gaming Authority, and Saskatchewan Indian Gaming Authority.

Other government agencies continue to improve their public accountability. We discuss the improvements later in this summary. As well, the Government continues to improve its overall practices for managing public resources and its public accountability.

We summarize our findings under two headings—Risk management and Improving the Government's public accountability.

Risk management

Well-managed organizations set clear and measurable objectives. They also identify risks that could interfere with achieving those objectives, and they try to reduce the risks to an acceptable level. This report continues our focus on how government agencies manage their key risks.

Over the next several years, we will continue to focus our work to help improve how the Government manages risks related to the key forces and trends affecting its ability to deliver programs. These key forces and trends include advancing technology, population changes, economic constraints, globalization, and pressure on the environment.

In this report, we make recommendations and suggest best practices that will help government agencies manage some of the risks related to economic constraints, advancing technology, and population changes. We discuss these recommendations and best practices under the three headings: governance and supervisory practices, infrastructure, and population changes.

Governance and supervisory practices

As noted earlier, one key force facing the Government is economic constraint. There is increasing demand for public services and a continued demand for lower taxes. The Government is always asked to do more with less. Good governance and supervisory practices will help agencies respond to this pressure.

Many of our findings in this report relate to poor or improper use of public resources when agencies do not carry out their duties effectively. For example:

- Some boards of directors have not set direction and monitored the actions of senior management.

- Some agencies have not adequately carried out their duties to supervise agencies that are accountable to them.

Chapter 5 – Health reports that the Department has good practices for managing public resources, except for a few matters. For example, the Department needed to continue to improve how it supervised the district health boards. Also, boards of directors of the district health boards needed to set direction for their districts and monitor the actions of senior management in carrying out the direction. The reorganization of the health system into 12 regional health authorities changes accountability relationships. The reorganization provides an opportunity for the Department to address previous concerns with the management of the health districts.

We set out six measures to help legislators and the public assess the sustainability of health spending in Saskatchewan. A sound understanding of the health system's finances is important to an informed debate about the issues facing the health system. These issues relate to the affordability of programs and services including the maintenance of the health system's infrastructure.

Chapter 6 – Liquor and Gaming Authority reports that the Authority has good practices for managing public resources, except for its supervision of SIGA's spending. We made several recommendations in 1999 and 2000 to improve Liquor and Gaming's supervisory practices. Liquor and Gaming's progress towards proper supervision of SIGA's operations is slow. Liquor and Gaming's supervisory practices remain deficient. As a result, it did not know if the expenses SIGA charged Liquor and Gaming for managing its slot machines were reasonable.

We also report that SIGA's progress towards proper management of public money is slow. In 2000, we made several recommendations to improve SIGA's practices. We had expected that by now that SIGA would have a detailed plan, setting out who would do what, and by when, to improve its spending practices. There is still no plan.

SIGA does not yet have a business and financial plan and it does not yet have processes to control its two biggest expenses: salaries and marketing. Also, SIGA continues to make payments that are not for operating casinos and continues to make payments without due care.

Liquor and Gaming, SIGA, and their senior management will need sustained commitment to bring about the necessary improvements to SIGA's management of public money. Failure to do so will result in SIGA's practices continuing to allow the improper use of public money.

Chapter 7 – Justice reports that the Department and the Public Trustee have taken the necessary action to properly administer the affairs of the Public Trustees' clients. This is vital because the Trustee's clients cannot manage their own affairs. In spring of 2001, we reported that the Public Trustee did not have adequate practices to administer its clients' affairs. This situation was caused in part by a new computer system that the Trustee was developing. In 2001, the Trustee needed to focus first on improving its administrative practices and then focus on making its new computer system fully functional. The Trustee can now focus on completing the new computer system so that it can achieve its expected benefits. We will monitor the Trustee's progress in achieving the benefits of its new computer system.

The Department also needs to improve its practices for managing penalties for offences under various laws. Tickets deter the public from disobeying the law. To be effective, tickets must be enforced. For several years, we have reported the Department's need to improve its enforcement practices.

Chapter 8 – Intergovernmental and Aboriginal Affairs reports that the Department has good practices for managing public resources, except for its supervision of one of its three agencies, the First Nations Fund. Last year, we reported serious concerns about the Fund's spending practices and the Department's supervision of the Fund. Unfortunately, these concerns continue.

This year the Fund spent $14 million. The Trustees responsible to administer the Fund continue to make payments to First Nations bands and to the Federation of Saskatchewan Indian Nations without ensuring they spend that money according to the law. The Trustee's also continue to make payments that are not permitted by the law. These practices are not acceptable.

The Department needs to take strong action to improve the Trustee's spending practices. It must ensure that the Trustee's spend money with due care and only for the purposes set out in the law. This is achievable with sustained commitment from the Department and the Trustees. The Department's other two agencies with similar programs, the Métis Development Fund and the Community Initiatives Fund, are generally well-managed.

Infrastructure

The Government has invested more than $16 billion in infrastructure (e.g., roads, gas lines, power plants, and communications networks). To provide public services, the Government spends significant sums of money annually on infrastructure. The Government must not only spend money to buy or build infrastructure, it must also maintain and operate the infrastructure. Advancing technology has a large impact on the infrastructure the Government needs to deliver its programs effectively.

Infrastructure is essential for the delivery of government programs. Infrastructure includes the computer systems and networks that the Government uses to provide public services.

The Government has a major investment in computer systems and is planning to spend to develop more large systems. Developing large computer systems is risky. Sound project management practices help to ensure that new systems are delivered on time, on budget, and achieve their expected benefits. Our work in this area assesses agencies' practices to implement new computer systems and to achieve the expected benefits of the systems.

In Volume 2 of our 2000 Fall Report, we described risks related to infrastructure. Management of these risks requires good long-term planning, clear responsibility, capacity maintenance, good information, and keeping the public informed.

Chapter 2 – Reporting on infrastructure—SaskEnergy and Highways and Transportation is about the importance of keeping the public informed about the Government's infrastructure. We examined the public reports of SaskEnergy Incorporated and Highways and Transportation. Together, these agencies have nearly $4 billion invested in infrastructure. Both agencies report good information about their infrastructure, but both agencies could improve. SaskEnergy needs to explain better the current condition of its gas transmission and distribution systems and the ability of these systems to meet peak demands. Highways and Transportation needs to provide additional information on its key plans and results related to highway condition, reliability, and safety. We also describe some lessons learned from our examination that will help other government agencies keep the public informed about their infrastructure.

Chapter 5 – Health reports that the Department does not have a long-term infrastructure plan. Such a plan is necessary for the effective delivery of health services. The Department is responsible for nearly $1 billion of health system infrastructure.

In addition, we describe the Department's progress in clarifying the responsibilities for managing specific risks related to the health system's infrastructure. In the fall of 2000, we had recommended that the Department clarify and communicate the responsibilities of the Department and district health boards for the health system's infrastructure.

Chapter 7 – Justice assesses the Department's long-term infrastructure plan. The Department's plan was adequate except for two matters. The Department needs to include a summary of all of its key assets in its plan and justify its strategies for managing these assets.

Chapter 3 – Information Technology Security is about the results of an information security survey of 32 public sector agencies. These agencies assessed their practices for keeping information available, confidential, and unimpaired. We also surveyed these agencies in 1999. Overall, the results showed that agencies have not improved their practices since 1999 and require more commitment to improve their security practices.

Chapter 9 – Finance contains information about a new computer system that the Department is developing and our audit plans for that system. The system will replace the Department's central financial and human resource system for all departments. The first phase of the system is expected to cost $13 million. The overall cost to the Government is expected to be $38 million. Given the risks in developing new systems, our audit work will initially focus on the Department's practices to develop its new computer system.

Population changes

The Government faces several key challenges because of population changes. The report discusses challenges related to obtaining human resources for the public sector, educating the population, and ensuring more participation of Aboriginal people in the economy.

Chapter 4 – Succession planning for public sector agencies highlights best practices the Government could use to ensure it has a skilled work force in the future to deliver public services. The Saskatchewan Government employs about 50,000 people. About 80% of these government employees work with agencies, commissions, regional health authorities, and Crown corporations (e.g., SaskPower, SaskTel). The remaining 20% work in government departments. About 25% of those government employees are 50 years old and older. Many of them will retire soon. The public sector stands to lose nearly 80% of its current managers over the next 20 years.

The Government will have to take action to build a labour pool with the skills to replace the employees who retire. We set out best practices for succession plans. We plan to use these best practices to assess the succession plans of government agencies.

Chapter 11 – Education reports on how the Department monitors the use of the provincial curriculum by school divisions. The Department formally evaluates the use of the curriculum by subject. The evaluations identify problems with the use of the curriculum and recommend changes. The Department needs to improve how it monitors the implementation of the recommendations.

Chapter 8 – Intergovernmental and Aboriginal Affairs provides an update on how the Department coordinates the activities of 12 government agencies. The agencies work together on a key government strategy, *A Framework for Co-operation: Practical Approaches to Issues Affecting Métis and Off-Reserve First Nations Peoples.*

In the fall of 2001, we reported that the Department had a sound foundation to coordinate activities, but needed better reporting practices. The Department has begun to receive reports from the participating agencies that help the Department to analyze and report progress.

Improving the Government's public accountability

This report continues to focus on encouraging the Government to improve its accountability to the public. Improving public accountability fosters better management of public resources. Having to answer publicly for what you plan to do and what you have actually done improves the management of public resources.

Observations

Sound public accountability relationships require:

- ♦ Agreed-upon plans that are clear as to responsibilities, authority, resources, and expected results. This requires government agencies to give the Assembly reliable business and financial plans.

- ♦ Reliable reports on actual results compared to planned results. This requires government agencies to give the Assembly reliable reports on performance.

- ♦ Reasonable reviews of performance reports. This requires a legislative committee to review the plans and actual results and offer advice for improvement.

We have called on the Government to make public departments' planned operating results. The Government announced in July 2002 that it would begin doing so and set out a timetable. By 2004, legislators should receive departments' planned operating results when the Assembly is approving the money for the departments to carry out their plans. Legislators should then have information to debate the expected results of proposed spending and assess whether the spending is reasonable to achieve the expected results. We congratulate the Government for taking this important step in improving its accountability to the Assembly.

In July 2002, nine of the 17 departments gave the Assembly their planned operating results for their year ended March 31, 2003. Most departments provided these plans in their annual reports. We congratulate the following nine departments for making this information public.

Agriculture, Food and Rural Revitalization
Corrections and Public Safety
Environment
Finance
Health
Highways and Transportation
Justice
Labour
Northern Affairs

Chapter 5 – Health reports that the Department published the *Saskatchewan Comparable Health Indicators Report* on September 30, 2002. The *Indicators Report* provides vital information about the performance of Saskatchewan's health system. Legislators and the public now have valuable information on the effects of health services on the health and the well-being of Saskatchewan citizens. Legislators and the public also have information that compares Saskatchewan's performance to that of other jurisdictions.

We audited the *Indicators Report* and the Department included our report in the *Indicators Report*. Our report provides legislators and the public with our assurance on the *Indicators Report's* reliability.

We congratulate the Department for preparing an understandable, accurate, and unbiased report. While the information in the *Indicators Report* has some limitations, the Department has properly described the limitations. We encourage legislators and the public to use the *Indicators Report* because it is the best information available on the performance of the health system at the present time.

Chapter 1 – Information Services Corporation of Saskatchewan (ISC) discusses a special report to the Standing Committee on Crown Corporations about the new computer system ISC is developing. The special report sets out the system's financing, projected cost, and benefits.

The special report was in response to legislators and the public asking questions about whether the new system is worthwhile. That is, do the benefits of the new system exceed the costs of the system?

We audited the special report and our reports are included in the special report. Our reports provide legislators and the public with our assurance on the reliability of the special report. The judgment of whether the system is worthwhile belongs to legislators and the public. To have an informed debate, legislators and the pubic need reliable information about the planned and actual benefits of the system as well as information about its planned and actual costs. Our responsibility is to ensure that legislators and the public have good information on the benefits and costs.

We congratulate ISC for preparing an understandable, accurate, and unbiased report. ISC was the first government agency to make public an audited report on its planned and actual benefits.

We encourage legislators and the public to use the special report to assess ISC's performance. We also recommend that ISC continue to report publicly on the extent to which it receives the benefits of the new system.

Chapter 14 – Environment and Resource Management includes financial statements showing the financial affairs of the entire Department. Financial statements are primary accountability documents. Currently, departments do not prepare financial statements showing their entire operations. We think they should. Legislators and the public need to see the entire financial affairs of departments to hold them accountable for their performance. We encourage legislators and the public to use the financial statements for the Department to assess its performance.

Acknowledgement

The dedicated efforts of the employees of this Office are essential for the continuing achievement of its responsibilities. The knowledge, skills, and abilities of our employees make this report possible. The report provides the Legislative Assembly with valuable independent information on the Government's management of public resources. A list of employees is set out in Exhibit 1.

Exhibit 1

My colleagues at the Office of the Provincial Auditor for Saskatchewan are:

Ahmad, Mobashar
Anderson, Mark
Atkinson, Brian
Bachelu, Gaylene
Baronowsky, Tricia
Boechler, Danielle
Borys, Angèle
Brezinski, Curtis
Burrows, Jamie
Calder, Chantara
Clemett, Tara
Creaser, Phil
DeCorby, Michelle
Deis, Kelly
Dickin, Deann
Duran, Jason
Duran, Joel
Emond, Candice
Federspiel, Angela
Ferguson, Judy
Fysh, Cindy
Grabarczyk, Rod
Harasymchuk, Bill
Heffernan, Mike
Huard, Brenda
Hungle, Angie
Jersak, Rodd
Kirchner, Carolyn
Klein, Robin
Knox, Jane
Kress, Jeff
Kuntz, Linda
Lacey, Shana
Lahti, Jay
Lees, Trina
Lowe, Kim
Martens, Andrew
Montgomery, Ed
Nyhus, Glen
Oldershaw, Mark
Ottenbreit, Stacey
Paul, Charlene
Paul, Kent
Rybchuk, Corrine
Schiller, Rita
Schwab, Amy
Schwab, Victor
Shorten, Karen
Sommerfeld, Regan
Szaroz, Jennifer
Thomson, Nathan
Tomlin, Heather
Volk, Rosemarie
Walker, Sandra
Watkins, Dawn
Wendel, Leslie

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Information Services Corporation of Saskatchewan

1

Executive summary

Information Services Corporation of Saskatchewan (ISC) has implemented a new automated land title system (System). In our 2001 Fall Report – Volume 2, we reported that ISC had good project management practices to implement the System except for processes to measure, verify, and report on the System's benefits.

In December 2001, The Standing Committee on Crown Corporations (CCC), an all-party committee of the Legislative Assembly, asked our Office to amend ISC's audit plan for the year ended December 31, 2001 to provide reports to CCC on the costs, financing, and benefits of the System. We agreed.

We worked with management and Deloitte & Touche LLP, ISC's appointed auditor, to audit three reports that cover the financing, costs, and benefits of the System. We concluded that ISC's three reports are reliable but noted that ISC lacks the operating history to set some of the targets and establish some of the systems to reliably measure the benefits of the System. We encourage readers to use these reports, but to keep in mind the limitations set out by ISC in its report called *Schedule of Performance Information*. Legislators and the public should consider this report as a work in progress and expect future reporting by ISC on the achievement of its stated objectives including the System's benefits.

The audited performance information should help legislators and the public understand and debate the System's financing, projected cost, and benefits as at December 31, 2001. The three reports and our Report to the Members of the Standing Committee on Crown Corporations on Information Services Corporation, dated June 5, 2002, are available from Clerk of the Legislative Assembly and on ISC's web site at http://www.isc-online.ca/isc_public/scripts/ISCnewsroom.asp?AREA=Home#REPORTS.

We are encouraged by ISC's preparation of the three public reports. The debate of whether a program or project is worthwhile belongs with legislators and the public. To have an informed debate, legislators and the public need reliable information about a program's or a project's planned costs and benefits, the actual costs incurred, and the benefits achieved.

Introduction

The Information Services Corporation of Saskatchewan (ISC) was established as a subsidiary of the Crown Investments Corporation of Saskatchewan effective January 1, 2000. ISC is responsible for administering Saskatchewan's land titles system, geographical information system, and personal property registry.

Since its inception, ISC has been developing the Government's new automated land titles system (System or LAND project). In 1999, Cabinet approved a $58 million budget for the System. The System is large and complex. It transforms Saskatchewan's paper-based land records at land titles offices into an electronic system. The System includes major changes in policies, business processes, land title fees, corporate culture, legislation, and ongoing organizational development. In 2001, the development of the System was substantially complete. ISC is currently converting millions of pages of paper documents to electronic records. It is also integrating the land records with the survey plans and the Saskatchewan Geographical Information System.

At December 31, 2001, ISC held assets of $55.6 million, had revenues of $36.7 million, and expenses of $43.0 million. ISC's 2001 annual report includes its financial statements.

Background

Large complex information technology projects are risky. Sound project management processes can reduce these risks and increase the likelihood of a project's success.

In 2001, we did an audit to determine whether ISC had adequate project management processes to implement the System. We reported the results of this audit in Chapter 1 of our 2001 Fall Report – Volume 2. We found that ISC had adequate project management processes to implement the System, except for processes to measure, verify, and report on the System's benefits. We made five recommendations to improve the likelihood of ISC successfully completing the System (see Exhibit 1). The recommendations continue, and we plan to report on ISC's implementation of these recommendations in a future report.

On December 6, 2001, members of the Standing Committee on Public Accounts (PAC) asked questions about the System's financing and costs, and whether ISC was meeting its stated objectives. PAC referred the questions to the Standing Committee on Crown Corporations (CCC).

On December 11, 2001, CCC considered these questions and asked that the year-end audit of ISC be amended to provide additional audit reports related to the following matters:

1. On the matter of the $55 million debt, to identify the key expenditure segments for ISC and the corresponding revenue and budgets at 2001 year-end.

2. On the matter of the project's costs in relation to the original approved budget, to identify the projected costs to complete the LAND project against the assumptions of actual cost of work completed and the assumptions used by ISC to make the projections.

3. On the matter of ISC meeting its stated objectives, to review progress of the Corporation with regard to its stated objectives including the stated benefits of the LAND project.

In response to these questions, ISC prepared three reports entitled:

- *Schedule of Accumulated Financing*;
- *Land Project Schedule*; and
- *Schedule of Performance Information*.

We audited each report.

Our audit conclusions and findings

Our Office worked with Deloitte & Touche LLP, ISC's appointed auditor, using 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). Deloitte & Touche LLP and our Office formed the following opinions.

In our opinion, as at December 31, 2001, ISC's reports on the System's financing, its costs, and whether ISC is meeting its stated objectives are reliable.

Performance report on ISC's financing requirements

The *Schedule of Accumulated Financing* (report) provides information requested by CCC on why ISC's debt was projected to increase to $55 million by March 31, 2002.

This report shows ISC's major sources and uses of public money from its inception on January 1, 2000 to December 31, 2001. The report also shows the public money ISC planned to receive from each source compared to what it actually did receive and it shows a projection of ISC's financing requirements from January 1, 2002 to March 31, 2002. In addition, ISC's discussion and analysis that accompanies the report provides explanations of the significant differences between the planned and actual sources and uses of public money.

This audited performance information should help legislators and the public understand why ISC expected its debt to increase to $55 million by March 31, 2002.

Performance report on the projected cost of the System

The *Land Project Schedule* (report) shows the System's key components, the planned costs, the actual costs as at December 31, 2001, and the projected cost to complete each component. This report also sets out the System's key risks and assumptions that affect the projected cost to complete the System. In addition, ISC's discussion and analysis that accompanies the report provides explanations for the differences between the System's planned costs and its projected costs to completion.

This audited performance information should help legislators and the public understand the System's projected cost and how this cost compares to the original budgeted cost as of December 31, 2001.

Performance report on ISC's progress in meeting its stated objectives including the System's benefits

The *Schedule of Performance Information* (report) shows for each of ISC's stated objectives, including objectives related to the System's benefits, how ISC is measuring its progress, what it expects to achieve by a given date, and what it actually achieved. Also, ISC's discussion and analysis that accompanies the report provides additional information on its activities.

ISC is currently implementing the System. As a result, it lacks operating history to set some of the targets and establish some of the systems to reliably measure the results. We encourage readers to use this report, but to keep in mind the limitations set out by ISC in the report. Legislators and the public should consider this report as a work in progress and expect future reporting by ISC on the achievement of its stated objectives including the System's benefits.

This audited performance information should help legislators and the public to understand whether ISC is meeting its stated objectives including the System's benefits as of December 31, 2001.

Obtaining these reports

These reports and our Report to the Members of the Standing Committee on Crown Corporations on Information Services Corporation, dated June 5, 2002, are available from Clerk of the Legislative Assembly and on ISC's web site at http://www.isc-online.ca/isc_public/scripts/ISCnewsroom.asp?AREA=HOME#REPORTS

Exhibit 1 – Recommendations from our previous Report

In Chapter 1 of our 2001 Fall Report – Volume 2, we recommend that ISC:

- strongly encourage key outside users to take training before conducting business using the System and that ISC continue to monitor outside user feedback;
- set measurable and verifiable System benefits and report publicly on the achievement of all planned benefits;
- perform a post-implementation review of the System project and make the results available to all government organizations;
- receive monthly reports on the comparison between actual costs to date on the System to the budget to date; and
- complete, test, and approve its business continuity plan.

In January 2002, the Standing Committee on Crown Corporations considered Chapter 1 of our 2001 Fall Report – Volume 2 and agreed with our recommendations.

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Reporting on Infrastructure—SaskEnergy and Highways and Transportation

2

Executive summary

Public infrastructure includes the full range of physical assets that the Government uses to provide services like transportation, communication, and energy. In Saskatchewan, some of the Government's key risks relate to public infrastructure. Factors contributing to these risks are advancing technology, a shifting population base, and aging infrastructure.

Legislators, managers, and the public all require information about how the Government manages these risks. The cost to purchase, operate, and maintain infrastructure can be significant. Good information supports sound decisions. It also helps the public to understand those decisions.

In this chapter, we examined the adequacy of information given to the public primarily in 2001 by two agencies with significant infrastructure. We noted that these two agencies provide a great deal of information to the public. We recommend strengthening information about the condition of the infrastructure and its ability to handle greater demand. We also recommend that information include comparisons of plans to actual results with explanations for significant differences.

In addition, we describe key lessons learned about reporting on infrastructure. In particular, we learned that the way agencies present information and its level of detail affect its usefulness. We also learned that the cost of providing information can be controlled and that Government policies influence the content of reports.

Introduction

Governments use and need public infrastructure to provide a wide range of public services. The nature of government infrastructure varies (e.g., roads, gas lines, power plants, and communications networks). In Saskatchewan, the Government has over $16 billion invested in infrastructure and spends significant resources each year to buy, improve, or maintain infrastructure.

In recent years, our Office has encouraged the Government to assess how it manages infrastructure, and to improve the information on infrastructure that it gives to the public.

In Chapter 4 of our 2000 Fall Report – Volume 3, we discussed the key risks that governments face related to their investment in infrastructure. To reduce these risks, governments must adequately manage how they:

1. Plan for infrastructure needs,
2. Set clear responsibility for infrastructure,
3. Maintain the capacity of infrastructure,
4. Maintain good information, and
5. Keep the public informed.

In Chapter 3 of our 2001 Fall Report – Volume 2, we discussed the need to keep the public informed about infrastructure. In that chapter, we describe criteria to help governments decide what information to make public about infrastructure.

To identify practical ways that government agencies could report on infrastructure, we looked at the adequacy of information on infrastructure that two government agencies provide—SaskEnergy Incorporated (SaskEnergy), and the Department of Highways and Transportation (Highways). We chose these two agencies because they each have a significant investment in infrastructure and have experience in reporting on their infrastructure to the public.

Adequacy of information about infrastructure

Background

The infrastructure owned by SaskEnergy and Highways is integral to each of their operations and supports their delivery of public services. Both agencies report that their infrastructure is aging, making careful management of it critical.

SaskEnergy, as a Crown corporation, has the exclusive right to own and operate the natural gas distribution and transmission systems in Saskatchewan. It relies on these systems to store and distribute natural gas to its residential and business customers. The systems include more than 78,000 kilometres of underground pipeline, numerous compressor stations, and storage facilities located throughout the province.

In 2001, SaskEnergy spent nearly $58 million on capital related to its natural gas systems. At December 31, 2001, SaskEnergy had invested almost $1.3 billion on these systems. Like other Crown corporations, SaskEnergy incurs debt to finance its infrastructure. At December 31, 2001, SaskEnergy had long-term debt of $623 million.[1]

Highways, as a government department, operates the provincial transportation system in Saskatchewan. The public relies on this system to move people and goods safely and efficiently. The transportation system includes 26,220 kilometres of highway, 845 bridges, 18 airports in northern Saskatchewan, 12 ferries, and a barge.[2]

In the 2001-02 fiscal year, Highways invested $132 million on capital related to its transportation system. At March 31, 2002, the Department had invested more than $2.4 billion on its transportation system.[3] The Department uses monies from the General Revenue Fund to finance its infrastructure.

[1] *The Strength to Grow, SaskEnergy 2001 Annual Report*, pp. 73.
[2] *Government of Saskatchewan, Annual Report 2001-2002 Saskatchewan Highways and Transportation*.
[3] *Public Accounts 2001-02: Volume 1: Main Financial Statements*: General Revenue Fund Notes to the Financial Statements, pp. 18.

Audit objective, process, and criteria

We examined the adequacy of information that Highways and SaskEnergy made public, primarily in 2001. Later in this chapter, we describe key lessons learned about reporting on infrastructure from this examination.

Officials from each agency helped us identify relevant information about infrastructure. The officials also highlighted key changes that they made to public information up to September 2002. We compared public information about infrastructure (e.g., in annual reports, on web sites, in news releases) to the criteria set out in Exhibit 1. The criteria describe the essential content for adequate public reports about the Government's infrastructure.

We previously reported these criteria in Chapter 3 of our 2001 Fall Report – Volume 2. Executive Council, the Department of Finance, and the Crown Investments Corporation of Saskatchewan (CIC) support the criteria.

Exhibit 1 – Criteria for public information on key infrastructure

Adequate public information about the key infrastructure that a government organization uses to provide public services should briefly describe:

1. **the capacity of each major category of infrastructure**
   - key infrastructure available for use
   - condition of the infrastructure
   - cost of the infrastructure
   - maximum service that the infrastructure could produce in its current condition
2. **the extent to which the use of key infrastructure achieved planned results**
   - actual operating results compared to plans
   - actual financial results compared to plans
   - reasons for major differences between results and plans
3. **the strategies used to manage major risks of the key infrastructure**
   - identify major risks that may affect the key infrastructure
   - actions taken or planned to reduce major risks to acceptable levels

Throughout our audit, we followed Standards for Assurance Engagements established by The Canadian Institute of Chartered Accountants.

Conclusions and recommendations

We found that during 2001 SaskEnergy and Highways gave the public reasonable information about their infrastructure. We also noted further improvements in the information provided in 2002. SaskEnergy provided adequate information about its infrastructure except for information on its condition and the system's ability to meet peak demands for gas. Highways provided adequate information about its infrastructure except that it did not provide sufficient information on key plans for its infrastructure compared to actual results, with differences explained.

1. **We recommend that SaskEnergy give the public additional information about the condition of its natural gas transmission and distribution systems and the ability of these systems to meet peak demands for gas.**

2. **We recommend that Highways give the public additional information on its key plans related to highway condition, safety, and reliability, as well as comparisons of plans to actual results with any differences explained.**

Findings by criteria

For each criterion, we set out our expectations (in italics) and our audit findings.

Capacity of each major category of infrastructure

Information about infrastructure will describe capacity in terms of:

- *the nature and location of key infrastructure available for use;*

- *the cost of the infrastructure and the method used to decide the cost;*

- *the processes used for maintaining the infrastructure in good working condition and the average remaining life span of each major category of infrastructure; and*

- *the maximum service capacity of the infrastructure*.

We found that Highways provided adequate information about the capacity of its infrastructure. For example, maps provided basic information about the location and types of infrastructure. Road advisories posted on its web sites and in local newspapers informed the public about the condition and safety of specific roads and what was done to maintain them. In its 2001 Annual Report and several other reports, Highways stated that the shift from rail to trucks has shortened the service lifespan of many roads. Highways reported that some deteriorating roads have exceeded their expected service capacity or lifespan. Highways provided limited information on the extent of roads in this category and the resulting damage. Information in this area is improving. In the Performance Plan included in its 2002 Annual Report, Highways disclosed the amount of primary pavements beyond their service life. Similar information on other types of highways is not yet made public.

Also in its 2002 Annual Report, Highways improved its information about the condition of various types of highways. For example, it stated that 83.6% of primary highways, 76% of pavements, 31% of thin membrane surfaces and 43% of gravel roads were considered to be in good condition. It clearly described how it determines if a highway is in “good” condition. The Report did not disclose Highways’ planned target for the proportion of highways in good condition.

In addition, we found that in 2002, Highways provided additional information about the cost of its infrastructure. In the 2001-02 Public Accounts - Volume 1, the Government disclosed that the estimated cost of the highways and bridges managed by Highways was $1.29 billion.[4] In prior years, Highways disclosed only the estimated replacement value of the highways. Both methods provide useful information to the public.

SaskEnergy published good information about the nature, location, and cost of its infrastructure. SaskEnergy provided excellent information in

[4] This amount represents the estimated cost less accumulated depreciation.

numerous formats about the processes used to maintain its infrastructure in good working condition. It indicated that its systems, although aging, are in good condition. In its 2000 Annual Report, it provided the number and types of pipeline system leaks experienced over a period of several years. It provided the number of unplanned outages and unintended contacts with the pipeline for each system. This information helps the public to understand the condition of the infrastructure.

SaskEnergy did not state directly the condition of its transmission and distribution systems and could better explain the current condition of its systems. SaskEnergy indicates that its systems are safe and reliable, and that no part of its systems is unsuitable for use. SaskEnergy also could state the percentage of its pipeline systems which it plans to examine because it may be at greater risk. It could also provide more information about the steps it takes to address these risks.

SaskEnergy described peak service levels that it met in the past, such as during cold winter days, but could enhance how it explains the systems' ability to handle extremely severe winter weather. The public would find this information useful to understand when SaskEnergy's capacity may be limited, and the process it follows to economically meet growing demand beyond previous peak service volumes.

Extent to which the use of key infrastructure achieved planned results

Government agencies should provide the public with sufficient information to decide whether the use of public infrastructure helped the Government to achieve its planned operating and financial results. Government agencies should compare actual results to targets for key operational information (e.g., number and duration of service interruptions or downtimes, public safety and reliability, impact of the infrastructure on the environment).

Agencies should also compare actual financial results to key financial targets (e.g., expected return on investment, budgeted acquisition, operating or maintenance costs). We also expect agencies to report the reasons for significant differences between planned and actual results for both operational and financial information.

We found that SaskEnergy provided the public with good information about the extent to which the use of its key infrastructure achieved planned operational and financial results. Because the transmission and distribution systems are integral to SaskEnergy's business, a number of its key performance measures relate directly to the safety, reliability, and level of service provided by these systems. SaskEnergy reported its current year actual results and future planned targets for these measures for each system. These measures included unplanned service disruption, unintended contacts with pipelines, and satisfaction with service/reliability. Further, SaskEnergy explained the reasons for significant differences between planned and actual results. Because the 2001 report did not include current year targets, readers needed the prior annual report to compare current period actual with current period targets.

Highways provided good information about the achievement of planned financial results. Highways informed the public about the costs (planned and actual) of its key activities (such as timing, location, and nature of road construction) through news releases, posting in newspapers, on its web sites, and in its annual report. In 2001, information about the achievement of planned operational results was limited. For example, in the 2001 Annual Report, most information on operational results was not compared to key operating plans (e.g., targets for service or safety), and did not explain how the actual operating results differed from plans. The public needs to understand why results differ from plans to help assess the extent to which the use of key infrastructure achieved planned results. We note that Highways' 2002 Annual Report includes improved information about its operational plans and results.

Strategies used to manage key risks of the infrastructure

Government agencies should describe the major risks that affect each major category of their infrastructure. Risks may include those common to the industry, risks related to deferred maintenance, changes in technology, and health or safety concerns. Agencies should also outline their actions to reduce these risks to acceptable levels.

We found that SaskEnergy and Highways described the major risks that they face in using their infrastructure to provide public services. SaskEnergy's risks centre on providing a safe and reliable transmission and distribution system. For example, the risk of unintended physical contacts with the pipelines that cause damage. Highways' risks centre on factors that put pressure on the ability of the transportation system to provide safe transportation of goods and people in an efficient and sustainable manner. For example, the risk of faster deterioration of roads due to the actual use of roads being different than use expected when roads were designed.

Further, both agencies described their actions and plans for reducing these risks to acceptable levels. For example, to manage the increased use of heavy trucks, Highways disclosed that it makes agreements with truckers about which roads they will use, and plans for increased road repairs. SaskEnergy used a number of public awareness programs to reduce service disruptions caused by unplanned contacts with the pipeline. For example, it promoted its "Call Before You Dig" program to the public through pamphlets, stickers, mass mail-outs, presentations, billboards, newspaper and radio ads, and its web site. Primarily in presentations and its annual report, SaskEnergy described its use of technology to monitor the presence of cracks or defects from the inside of the pipeline before a leak occurs. In July 2002, SaskEnergy augmented its public information on its pipeline safety integrity program by posting a detailed description of the program on its web site.

Key lessons learned

During our work, we highlighted four main lessons evident in how SaskEnergy and Highways inform the public about infrastructure. We noted both similarities and differences in how these two agencies made public their information about infrastructure. Consideration of these lessons will provide other agencies with practical ways of improving their public information on infrastructure.

Presentation matters

The way that information is presented affects the public's understanding of that information.

Both agencies try to avoid technical terms to the extent possible and when the terms were used, they clearly defined them. Often the management and operation of infrastructure can be very specialized and technical. For example, SaskEnergy measures the volume of natural gas transmitted in terms of petajoules. Its glossary in each of its annual reports explains this term. Agencies must be diligent in explaining infrastructure, its risks, and related activities in terms that the general public can understand.

Both agencies routinely used graphs and charts. The graphs, particularly those showing trends over time, and charts, particularly those comparing planned results to the actual operational and financial results, eased understanding. How agencies display information about infrastructure can influence the public's understanding of the information.

Both agencies emphasized that infrastructure contributes to their success but is not solely responsible for it. For example, Highways explained that highway design and condition affects highway safety, but so do other factors such as weather conditions and driver behaviour. It is important that government agencies explain to the public how their infrastructure influences their operational results. The public also needs to know the extent to which infrastructure helps achieve the desired results. Putting infrastructure information in context makes it more understandable.

Level of detail affects usefulness

The amount of information and how it is communicated affects the usefulness of the information.

In 2001, Highways used many different documents to report key information about infrastructure as opposed to using its annual report as its primary reporting vehicle. Some of these reports were for the general public, while many were developed for specific audiences. Although this approach required the public to read many different reports and assimilate the information to capture the full picture of the transportation system, it did work. For the first time, Highways' 2002 Annual Report provided legislators and the public with summarized information about many aspects of the transportation system. For example, it reported that it considers 83.6% of the primary highway network to be in good condition and 14,000 kilometres of primary pavement as beyond their service life. In addition, Highways routinely meets with stakeholders to share information. For example, Highways meets regularly with representatives of the various regions in the province to discuss completed road work and plans for the roads in those regions.

SaskEnergy took a different approach. It used its annual report as its primary vehicle to provide the general public with summarized information about key aspects of its infrastructure. It then used numerous other forms of public information to provide additional details about various aspects of its infrastructure. This approach allowed it to tailor its communication to specific audiences or target groups, while targeting its annual report to the general public.

For agencies with significant infrastructure, incorporating key information about the infrastructure into their annual reports works well. Most annual reports are written for the general public. Augmenting this information with more detailed information in other public reports is an effective way to satisfy people who desire more detail.

Government policies limit content of reports

In part, what SaskEnergy and Highways reported was influenced by government policies dealing with public disclosure of information. The policies that apply to each agency allow different disclosure.

As stated in Chapter 3 of our 2001 Fall Report – Volume 2, CIC officials noted that the Government's policy to protect the competitive position of its Crown corporations may affect the publication of some information on infrastructure. Generally, we found SaskEnergy was able to provide useful information to the public while complying with this policy.

Consistent with government policies, SaskEnergy, as a CIC Crown corporation, has improved information in its annual reports based on the use of the balanced scorecard approach (see Chapter 2 in our 2000 Spring Report for details on this approach). This approach encourages results-based management including the use of goals, objectives, and measures of success. The CIC has encouraged its Crown corporations to improve public reporting of their results based on the use of the balanced scorecard approach. Because SaskEnergy's infrastructure is integral to its operations, a number of its performance measures relate to the safety, reliability, and service level of its infrastructure. As a result of using this approach, SaskEnergy's annual reports now contain good summary information about most aspects of its infrastructure.

Starting with the year ended March 31, 2002, government departments began reporting using an approach similar to that of the CIC Crown corporations. The new policy places a greater emphasis on reporting results in annual reports rather than activities and encourages government departments to disclose their goals, objectives, and how they measure their results but not the disclosure of their performance measures (targets). These changes in government policy allowed Highways' 2002 Annual Report to contain better information about its infrastructure.

We are encouraged by the recent changes to government policy on the disclosure of information to the public. We look forward to further improvements in the information reported to the public.

Costs can be controlled

Producing information for the public takes time and costs money.

Both SaskEnergy and Highways recognize the importance of controlling the cost of providing information to the public. They control costs by using one communication for multiple purposes. Both agencies routinely integrated key information about their infrastructure into other information and provided this information in a variety of formats, such as presentations to the general public, news releases, strategies and papers to other levels of governments, and annual reports. Rarely did they prepare reports dedicated solely to reporting on infrastructure.

In addition, to reduce the cost of printing and distribution, both agencies made extensive use of their web sites. They both monitored the public's access to their web sites and note that the public regularly accessed information posted on these sites. For example, SaskEnergy's web site was accessed more than 8,000 times monthly.

Both agencies also managed costs by reporting some information at intervals other than annually. For example, Highways, when reporting on the general issues causing increased deterioration of the highways, made reference to previously issued reports. It continued to make these reports accessible to the public. This works well when the situation reported on does not change significantly over time.

Agencies must recognize and keep the need to report on infrastructure in mind while preparing other forms of reports and communications to use a cost-effective way to provide the public with information.

Public disclosure promotes better dialogue

Both Highways and SaskEnergy support public reporting of key information about their infrastructure. They recognize that the public needs to have a good understanding of their infrastructure and how it is managed. This understanding is critical to obtain the public's support for their actions and plans. Publishing key information on infrastructure helps engage the public in dialogue about how to manage their aging infrastructure.

The Government faces some challenging risks related to much of its infrastructure. The *2002-03 Budget Address* notes the need to modernize our transportation, education, and information technology infrastructure.

Infrastructure tends to be expensive. Much of the Government's infrastructure is old and reaching the end of its expected lifespan. In addition, the infrastructure needs of the population are changing as people age and move toward urban areas and our population in northern Saskatchewan grows.

It will be important for the Government to engage the public in dialogue about these important issues. An informed dialogue requires good information about public infrastructure.

We encourage all government agencies with significant infrastructure to examine how they report on infrastructure and consider ways to use these criteria and lessons learned to improve. Better information will be valuable to managers, legislators, and the public.

Government agencies that use these criteria should consider whether they need to adjust the criteria to suit the nature of the infrastructure they use. Careful selection of criteria will help to ensure that government agencies give the public useful information.

We plan to continue focusing attention on the way that the Government manages its infrastructure and informs the public about it.

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Information Technology Security

3

Executive summary

This chapter is a continuation of our review of Information Technology (IT) security from our previous reports. This chapter compares the results of a recent survey with the results of the survey completed in 1999 and reported in our 1999 Fall Report – Volume 2. We also surveyed government agencies (agencies) and reported results in our 1996 Spring Report and our 1997 Spring Report.

The information and the technology that supports government programs is one of the Government's most important assets. As a result, agencies need to protect their information from unauthorized disclosure, accidental or deliberate changes, and accidental or deliberate destruction. Agencies must also ensure their procedures are adequate to recover from system interruptions.

There are a number of trends occurring that indicate IT security will become even more critical to the Government. These include increased dependence on IT; use of the Internet and Intranets to provide government services; the use of e-commerce to do business; the increased sharing of information electronically with other organizations; and the increased use of networks.

Overall, the results showed little improvement from the previous survey and more improvement is required. For example:

- Agencies need to improve their employees' awareness of their responsibility and accountability for ensuring the confidentiality, privacy, integrity, and availability of their critical IT systems and data.

- To ensure an appropriate level of security, senior management needs to become aware of the risks agencies are assuming if they are not fully protecting the confidentiality, privacy, integrity, and availability of its critical IT systems and data.

- IT security officials in most agencies are not independent of IT operations. They are placed in a conflict of interest position because IT operations objectives are often in conflict with IT security objectives.

Introduction

This chapter reports the results of our survey of information technology (IT) security practices in government agencies (i.e. departments, Crown corporations, boards, commissions, and post-secondary institutions). We also report the results of our follow-up work on our previous recommendations on IT security.

To assess the progress the Government has made in improving IT security, we compared the results of the current survey to the results of past surveys. The survey results show little improvement in security practices in the Government. We concluded that the Government must do more to improve its IT security in its agencies.

The need for IT security

IT security means the measures agencies use to protect the confidentiality, privacy, integrity, and availability of their IT systems and data.

Good security is critical to the successful use of IT. If security is poor, government agencies (agencies) risk not having accurate and reliable information to achieve their goals.

Today, agencies use IT to deliver their programs and services, provide the information they need to make decisions, manage their resources, and account for what they do. As a result, agencies must adequately protect their information from unauthorized disclosure, accidental or deliberate changes, and accidental or deliberate destruction. Agencies must also ensure their procedures are adequate to recover from system interruptions.

There are a number of trends occurring that indicate IT security will become even more important to the Government.

1. The agencies' use of and reliance on IT to conduct their business and to interact with other agencies, other levels of government, private corporations, and the public continues to increase. More computers are being connected together to form networks. As more computers are connected, the risk of security breaches

increases. Security is only as strong as its weakest link. In addition, networks are becoming more complicated as technologies improve and the demand for more speed and access increases. The Government is implementing CommunityNet, a province-wide network that connects over 1500 public facilities in over 300 locations to deliver its programs and services electronically.

2. Agencies are increasing their use of the Internet and of Intranets (i.e., private secure Internet sites). As agencies transmit information across the Internet and Intranets, the risk of unauthorized access to that information increases.

3. Agencies are increasing their use of electronic-commerce (e-commerce). E-commerce is the use of telecommunications and computer processing to conduct business electronically.[1] Almost 70% of agencies we surveyed indicate that they are currently using some form of e-commerce to conduct business. We expect that this number will continue to rise. Poor security over e-commerce introduces the risk of direct financial losses.

4. More employees are gaining access to agencies' computer networks from outside the agencies' offices. The survey showed agencies have staff or customers accessing the agencies' systems from outside their offices. This increases the risk of unauthorized access to their networks because agencies cannot restrict access by just using the physical security of their offices. Therefore, good physical security is not as effective as it once was in helping to prevent unauthorized access. In addition to good physical security, agencies need to have stronger access controls.

5. Agencies are starting to recognize the importance of reporting non-financial indicators in measuring their successes and reporting on their performance. The trend is that agencies are realizing that more of their non-financial systems are critical[2]. Agencies are becoming aware that some of these systems are

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[1] Adapted from the *Information Technology Control Guidelines* published by The Canadian Institute of Chartered Accountants.

[2] To assess what is critical, agencies were asked to consider the significance, impact and magnitude of the system.

more important than financial systems. This shows the agencies' increasing reliance on IT to deliver their products and services.

6. The agencies we surveyed reported that they spent almost $290 million last year on information technology. They also estimate they will spend over $310 million on information technology in this year.

7. Fifty per cent of the agencies surveyed indicated that they had outsourced the management of at least one of their critical systems.

8. The Government is increasingly concerned about privacy. Currently the Government is doing a study and report on the privacy practices in its agencies. At the time of this report, the Government's report on privacy was not public.

The Canadian Institute of Chartered Accountants (CICA) and the American Institute of Certified Public Accountants (AICPA) also recognize this increasing importance and reliance on IT. They jointly drafted a new assurance standard called the *Trust Services Principles and Criteria* to give assurance on the reliability (availability, security, integrity, confidentiality, and privacy) of Internet sites and computer systems. This standard gives organizations the ability to provide assurance to others that the organizations' systems meet a set of security principles and criteria.

For example, an organization that uses its Internet site to conduct business can hire an independent auditor to evaluate and test the site and its systems to see if it meets the principles and criteria. If it does, the auditor will allow the agency to display on its Internet site the *WebTrust* seal to tell users there is a high level of assurance the information on its Internet site is reliable and Internet business transactions will be secure.

Because of the increasing importance of IT security to the Government, we plan to review security practices every three years. The results of our survey showed that agencies made little progress from 1999 and that they need to improve their IT security. Also, given the increasing importance of and risk to IT, the security standards must improve to keep pace with changes in IT.

Our work

Our study involved an analysis of the results of 32 of the 34 key government agencies surveyed. We based the survey questions on standards recommended by the Technical Security Branch of the Royal Canadian Mounted Police (http://www.rcmp-grc.gc.ca/tsb/index.htm). We asked the agencies to evaluate themselves as of August 31, 2002. Exhibit 1 contains a listing of the agencies surveyed.

We assessed the reasonability of the responses against our knowledge of the agencies' security practices. In carrying out the assessment, we concluded that the responses were reasonable.

In this chapter, we also compare the results of the current survey (denoted as *current* on the bar graphs) with the results of the survey completed in 1999 (denoted as *prior* on the bar graphs). We published the prior survey results in our 1999 Fall Report – Volume 2. In our previous chapters on IT security, we made several recommendations. The Standing Committee on Public Accounts reviewed those chapters in May of 1996 and December of 2000 and concurred with our recommendations. There are no new recommendations in this chapter.

We assess the Government's security management practices using the following six criteria:

1. responsibility for security
2. security policies and procedures
3. security awareness
4. protection of IT resources
5. confidentiality and integrity of IT resources and
6. availability of IT resources

The following section details our findings.

Detailed results

Responsibility for security

We expected agencies would clearly define the roles and responsibilities for IT security. Agencies would have policies and procedures that:

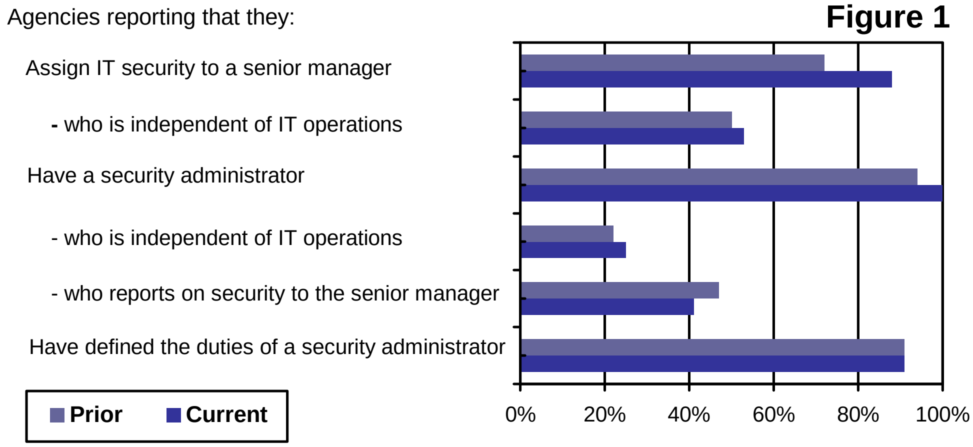
- *assign responsibility for IT security to a senior manager who is not responsible for IT operations and programming;*
- *appoint a security administrator who is independent of IT operations and programming and is accountable to the senior manager responsible for IT security; and*
- *set out the roles and responsibilities of a security administrator.*

Given the significant reliance on information technology in today's world, organizations should assign the responsibility for IT security to a senior manager. This would give IT security the priority it needs. In addition, senior management can strengthen security by making a written commitment (e.g., Government of Saskatchewan Security Charter) to have good security.

Agencies need to have adequate segregation of incompatible duties by separating the responsibilities for IT security from computer operations and programming. If they do not, employees may not carry out approved policies and procedures or may reduce security to increase the speed at which computer systems process and retrieve data. Good security practices can reduce the performance of systems. For example, to protect against computer viruses, agencies have installed programs to check and eliminate computer viruses. These programs can cause the IT system to run slower.

In smaller agencies, the separation of IT security from computer operations may be impractical. Each Agency should assess this during its analysis of threats and risks. Senior management should document its approval if it plans to take this risk.

Figure 1



Our survey results on Figure 1 indicate that 53% of agencies assign IT security to a senior manager who is independent of IT operations. There is still a need for improvement. Only 25% of agencies have security administrators that are independent of IT operations. There has been no significant change in this number from the previous survey. Agencies need to improve the reporting process between the security administrator and the senior manager who has the overall responsibility for security. Forty-one per cent of the agencies surveyed indicate that the security administrator reports directly to the senior manager responsible for IT security and security matters. This is a small drop from the last survey.

We continue to recommend:

- ♦ agencies assign the responsibility of IT security to a senior manager who is independent of IT operations; and
- ♦ the security administrator(s) report directly to the senior manager responsible for IT security.

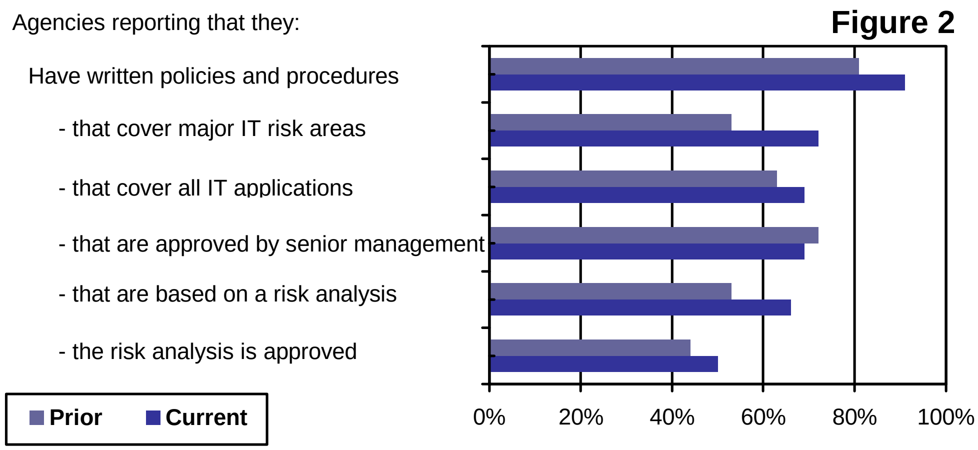
Security policies and procedures

We expected agencies would have written and approved security policies and procedures that are based on a sound threat and risk analysis.

Without written and approved security policies and procedures, agencies may not have adequate safeguards to ensure the confidentiality, privacy, integrity, and availability of information systems and data. Also, employees may not know the rules they need to ensure good security.

A threat and risk analysis is key to developing adequate security policies and procedures. This analysis is essential for good IT security management. Senior management must ensure the threats and risks to IT security are addressed with appropriate security policies and procedures. The analysis should compare the costs of the security measures to the benefits of reducing the threats and risks. Senior management should review and approve the analysis to ensure they are aware of the threats and risks facing the agency and the cost-benefit trade-offs.

Figure 2



Since our last survey, the Information Technology Office[3] has conducted workshops to help agencies write good security policies and do a good threat and risk analysis. Many agencies have not yet completed their new security policies.

The above graph indicates there has been little improvement since the prior survey. There are still a significant number of agencies without adequate written policies and procedures. The survey results indicate that 91% of agencies have written policies and procedures, but only 38% of the agencies have up-to-date security policies and procedures that:

- cover all major risk areas;

[3] Operating under the leadership of the Chief Information and Services Officer for Saskatchewan, the Information Technology Office (ITO) establishes and co-ordinates policies and programs that use information technology to enhance public access, strengthen the government's ability to undertake electronic service delivery, and enable electronic commerce throughout the province.

- cover all applications; and

- are approved by senior management.

Given the reliance on IT, it is essential that all agencies have written and approved security policies and procedures.

The current results show that only 50% of agencies do a risk analysis and have it approved by senior management. Policies and procedures need regular monitoring to ensure they continue to meet the needs of the agency. This monitoring includes ensuring policies and procedures meet a minimum standard and agencies operate within the standard.

While the surveys showed 91% of agencies have written policies and procedures, our review of those policies and procedures showed that the level of detail varies from agency to agency. For example, one agency refers to the acceptable use policy published by a central government agency as their only documented security policy. It is acceptable to refer to other published policies, but agencies need to ensure their documented policies cover all significant areas of IT security, not just acceptable use of personal computers.

In our 1999 Spring Report, we recommend that the Government establish a government-wide general security policy for its IT systems. The general security policy would set out the security performance standard that the agencies must meet. The ITO has provided most agencies with a template to prepare their security policies. The Government must establish a baseline security policy for agencies using CommunityNet.

We continue to recommend:

- the Government establish a government-wide general security policy for its IT systems;

- that all agencies establish security policies and procedures for their significant IT systems;

- that agencies set and approve security policies and procedures that meet the government-wide general security policy and the security needs of the agency based on an appropriate threat and risk analysis; and

- that agencies continue to monitor their security policies and procedures to ensure that they meet the needs of the agency and meet or exceed minimum standards.

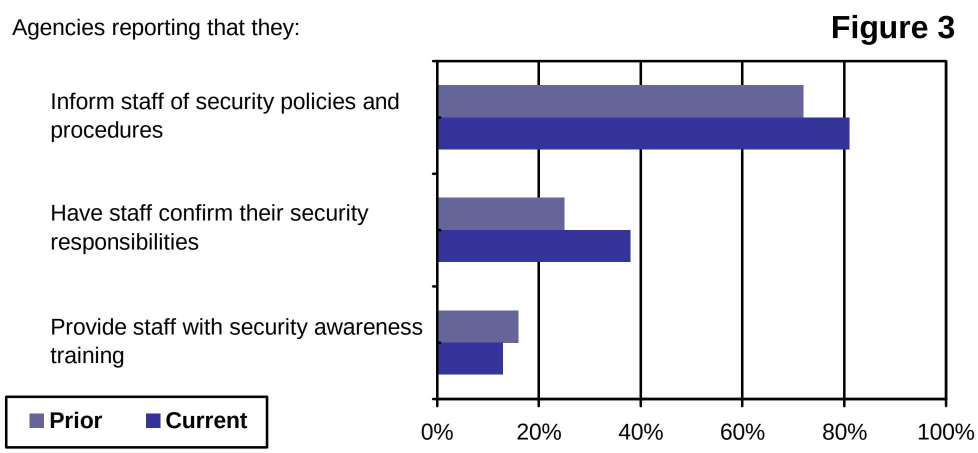
Security awareness

We expected agencies would make employees aware of security by informing and training them in their IT security responsibilities.

Agencies need to ensure employees are aware of the security policies and procedures. Generally, this is a simple and efficient way to improve security. A majority of the security breaches or incidents originate from within the organization. Employees not aware of the policies or the consequences of their actions account for a large portion of the security breaches. Management can prevent most security breaches by informing employees of their security responsibilities and training them properly.

Employees need to confirm periodically that they are aware of the policies. This promotes accountability for and awareness of the agency's policies.

Figure 3



The survey results indicate there is very little improvement in this area. Only 38% of the agencies surveyed say they have employees confirm their security responsibilities (e.g. confidentiality, privacy, integrity, and availability).

The surveys indicate that the agencies have not taken seriously the need for security awareness training. Only 13% of agencies provide their employees with regular security awareness training. Management must make employees aware of the responsibilities and skills needed to ensure the security of their agencies' information.

Agencies need to improve their procedures for revoking employees' access to information when they quit or change responsibilities. Forty per cent of the agencies surveyed do not have written rules and procedures for revoking employees' access. Written rules and procedures ensure employees are aware of the procedures they need to follow.

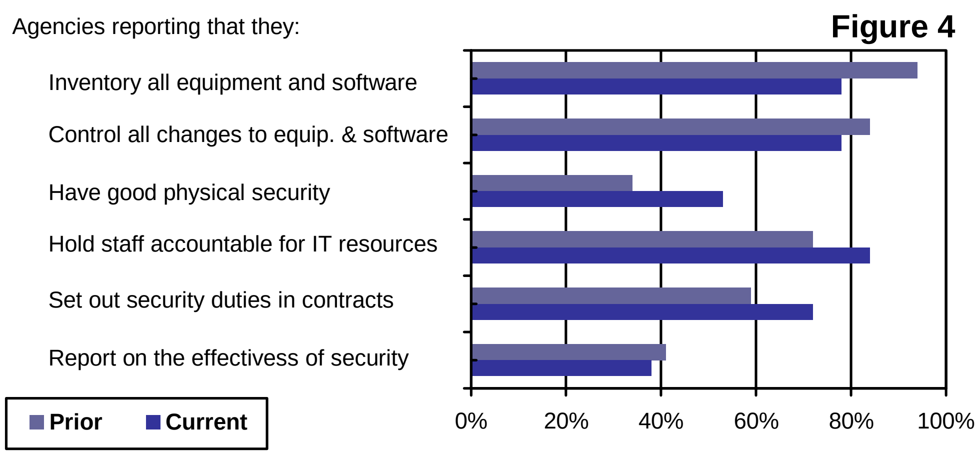
We continue to recommend that agencies:

- provide security awareness training;
- have employees agree periodically in writing with their security responsibilities; and
- ensure they have written policies and procedures for revoking employees' access to information when their employment ends.

Protection of IT resources

We expected agencies would have strong physical security, control all changes to computer equipment and software, specify security requirements in service contracts, and monitor and report on the effectiveness of their security measures.

Figure 4



The survey results indicate that there is little improvement in physical security. Only 53% of agencies surveyed indicate that they have good physical security. Physical security is an essential part of good IT security. If agencies have their IT systems and data physically secure, then password security becomes more effective. Twenty-five per cent of agencies thought they should improve physical security.

We found that only 38% of the agencies report on the effectiveness of their security policies. Senior management needs to know whether employees comply with their agencies' policies. Also, senior management needs to know if their security policies and procedures are effective in ensuring the confidentiality, privacy, integrity, and availability of information resources.

Seventy-two per cent of agencies report that they set out security requirements in service contracts. If agencies do not specify security requirements in contracts, they are at risk of the contractor disclosing information.

We continue to recommend that agencies:

- determine their physical security needs and assess the adequacy of their security measures;

- periodically report on the effectiveness of their security policies and procedures. Senior management should review these reports and take corrective action if necessary; and

- ensure their service contracts include requirements for security and confidentiality.

Confidentiality and integrity of IT resources

We expected agencies would protect the confidentiality and integrity of IT systems. To do this, agencies need to:

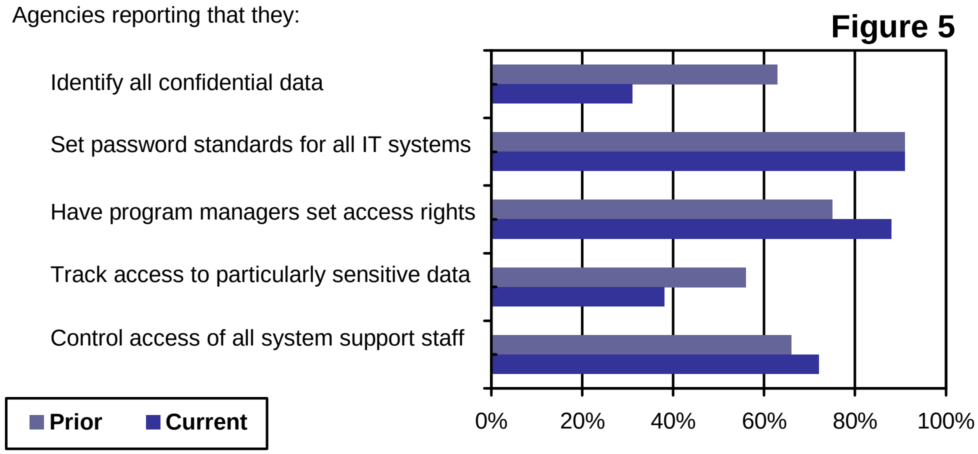
- *identify all confidential data kept on IT systems;*

- *set standards for the composition and changing of passwords that permit access to confidential data;*

- *have owners of data (program managers) define and authorize who can access or change their data; and*

- *track who accesses very sensitive data.*

Figure 5



Ninety-one per cent of the agencies report that they have password standards for their IT systems. However, the standards vary for each agency including the required minimum length of a password and the maximum number of days that a password can be used. It would be beneficial to have password standards included as part of a government-wide policy. More agencies are sharing information through the interconnection of their computer systems and the agencies must keep the information confidential. Standards, such as password policies, will help ensure agencies that share confidential information maintain the confidentiality, privacy, integrity, and availability of the data.

Agencies still need to improve the way they classify confidential data and track access to sensitive data. This includes defining who can access data. Classifying and tracking confidential and sensitive data will help to control access to the data. Figure 5 shows that only 31% of agencies identify confidential data, only 38% of agencies track access to sensitive data. The government has introduced a draft framework for classifying data and agencies have not yet put it into practice.

We continue to recommend that agencies:

- use government-wide security criteria to set password standards for all their IT systems;

- identify their confidential data. This should be based on government-wide security criteria;
- require program managers to define who can access their data; and
- control and monitor the access that IT support employees have to IT systems.

Availability of IT resources

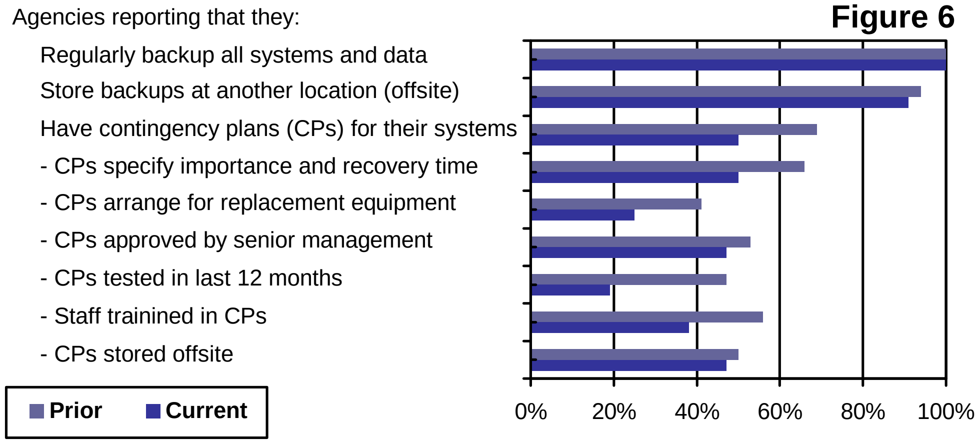
We expected agencies would have adequate back-up and recovery procedures, and tested and documented contingency plans.

Agencies need current, written, and tested contingency plans for critical functions and for the 'business' as a whole. To ensure contingency plans are adequate, agencies need to perform a threat and risk analysis. A threat and risk analysis ensures management is aware of significant risks so that the agency can adequately address those risks. Even if agencies are relatively certain their systems will not fail, they still need to do a threat and risk analysis and prepare contingency plans.

Agencies need to be clear on which of their systems are critical. Designating a system as critical affects the level of contingency planning that is necessary. Senior management needs to:

- *know what systems are critical and how long its agencies can operate without the system;*
- *ensure adequate policies and procedures are in place relating to contingency plans;*
- *approve and accept risks not covered by the contingency plan; and*
- *ensure the availability of any outsourced critical systems.*

Figure 6



The survey results indicate that many agencies that had contingency plans in 1999 have not kept them current. Most of the agencies reported that they periodically back-up their systems and data, and store their back-ups offsite.

Fifty per cent of agencies reported that they have a contingency plan for their significant IT systems. This is down considerably from 1999.

Only 16% of agencies that have contingency plans meet all of the criteria listed in Figure 6.

The 32 agencies that completed the survey listed over 400 critical systems. Agencies ranked over 250 of these systems as being very critical.

We continue to recommend that agencies:

- specify which systems are critical to the mission of the agency;
- base their contingency plans on a risk analysis which ensures management is aware of its significant risks and how to address those risks;
- that agencies specify in their contingency plans the acceptable recovery time for each IT system; and
- that agencies test and approve their contingency plans and store them off-site in a safe location.

Conclusions

Some agencies indicate that security issues have not been made as high a priority as they would like. A majority of agencies stated that there is a lack of money to improve security. Some of the government departments surveyed have undergone significant organizational changes. They have noted that they are working on making the necessary changes to improve security.

Overall, the results showed little improvement in IT security from the previous survey. Some agencies are strengthening their security policies and procedures to ensure the confidentiality, privacy, integrity and availability of their information systems and data while others have not progressed. It is clear more improvement is required. For example:

- Agencies need to improve their employees' awareness of their responsibility and accountability for ensuring the confidentiality, privacy, integrity, and availability of their critical IT systems and data.
- To ensure an appropriate level of security, senior management needs to become aware of the risks agencies are assuming if they are not fully protecting the confidentiality, privacy, integrity, and availability of its critical IT systems and data.
- IT security officials in most agencies are not independent of IT operations. They are placed in a conflict of interest position because IT operations objectives are often in conflict with IT security objectives.
- Only 53% of agencies say they have good physical security over their IT systems.

Government agencies are also working on improving security policies. The Information Technology Office and the System Management Council have developed a document to assist in the process of setting security standards. We encourage all government agencies to adopt the security standards. This would be a major step toward better security for all government agencies.

Meeting the recommendations listed earlier requires a significant commitment by management. This includes ensuring management is involved in the security decision-making process and committing resources to improve IT security.

Exhibit 1 – Agencies surveyed by our Office

Crown Investments Corporation of Saskatchewan
Department of Agriculture, Food and Rural Revitalization
Department of Environment
Department of Finance
Department of Government Relations and Aboriginal Affairs
Department of Health
Department of Highways and Transportation
Department of Industry and Resources
Department of Justice (Includes Department of Corrections and Public Safety for the purposes of the survey)
Department of Labour
Department of Learning
Department of Social Services
Executive Council
Information Services Corporation of Saskatchewan
Public Employees Benefits Agency
Public Service Commission, The
Regina Qu'Appelle Regional Health Authority
Saskatchewan Crop Insurance Corporation
Saskatchewan Gaming Corporation
Saskatchewan Government Insurance
Saskatchewan Health Information Network
Saskatchewan Indian Gaming Authority
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Liquor and Gaming Authority
Saskatchewan Power Corporation
Saskatchewan Property Management Corporation
Saskatchewan Telecommunications
Saskatchewan Transportation Company
Saskatoon Regional Health Authority
SaskEnergy Incorporated
Teachers' Superannuation Commission*
University of Regina, The
University of Saskatchewan, The*
Workers' Compensation Board

* Responses were not received from these agencies.

Glossary

Electronic Commerce – The buying and selling of products and services over an electronic medium such as the Internet. A key component of electronic commerce is the payment for the goods and services through electronic means such as the transfer of credit card information electronically or the transfer of funds directly through a bank.

Internet – A world wide web of interconnected networks providing access to a multitude of servers and to information resident on such servers[4].

Intranet – A private network or Local-Area Network connected to a web server that acts as a storage area for information for use within an organization. Users can access the information from their workstations by using Internet browser software[4].

Network – A set of connected devices (computers, modems, printers, etc.) that can be physically located across a diverse set of locations or in a single office.

[4] Adapted from the *Information Technology Control Guidelines* published by The Canadian Institute of Chartered Accountants.

Succession planning for public sector agencies

4

Executive summary

Public sector agencies need sound long-term succession plans immediately. Succession planning is a systematic process to ensure organizations have the right people with the right skills in the right place at the right time. It is a process that requires attention from legislators, managers, and all government employees.

An understanding of the key factors that influence succession planning is important. In this chapter, we highlight some of those key factors. We set out demographic information on Saskatchewan's current workforce, focusing on the public sector's workforce. In addition, we highlight the expected makeup of the future workforce and the impact on the public sector.

The Saskatchewan Government employs about 10% (50,000) of the provincial workforce and faces significant human resource challenges. Over the next 20 years, the Government expects more retirements than usual and proportionately more than the private sector. In addition, the Government expects its agencies to lead the way to build a workforce that represents the makeup of the projected general population. These two challenges make succession planning urgent.

In this chapter, we set out three principles and best practices for succession planning in public sector agencies. Sound succession planning in the public sector should reflect the long-term strategic direction of the Government and each agency. Succession planning would help government leaders to build a talent pool and coordinate key human resource strategies.

We hope that the principles and best practices set out in this chapter will help the public sector use succession planning to manage the risks to its human resources. In future years, our Office plans to use them to help us examine the Government's succession planning practices.

Introduction

Over the next two decades, the Saskatchewan Government will face a sharp increase in the number of employees retiring from the workplace. In this report, we highlight the importance of succession planning as one way for public sector agencies in Saskatchewan to manage their human resource risks. We also set out best practices for succession planning. We encourage public sector agencies to use these best practices to reflect on their current practices. In addition, we trust that these best practices will stimulate action to revise practices and to manage the human resource risks that the Government faces.

Public sector agencies include provincial government departments, Crown corporations, boards, commissions, and regional health authorities. Schedule 14 of the 2002 Government of Saskatchewan Summary Financial Statements lists these agencies (available at http://www.gov.sk.ca/finance/paccts/paccts02/02paper1.htm).

What is succession planning?

Simply put, succession planning is a systematic process to ensure that organizations have the right people with the right skills in the right place at the right time. It applies to the entire workforce in the public sector.

Succession planning is a process that requires attention from legislators, managers, and all government employees. It is not a process left solely with human resources staff. Succession planning is part of overall human resource planning. Effective organizations integrate succession planning with other management processes and monitor the related risks.

Saskatchewan: Where are we now?

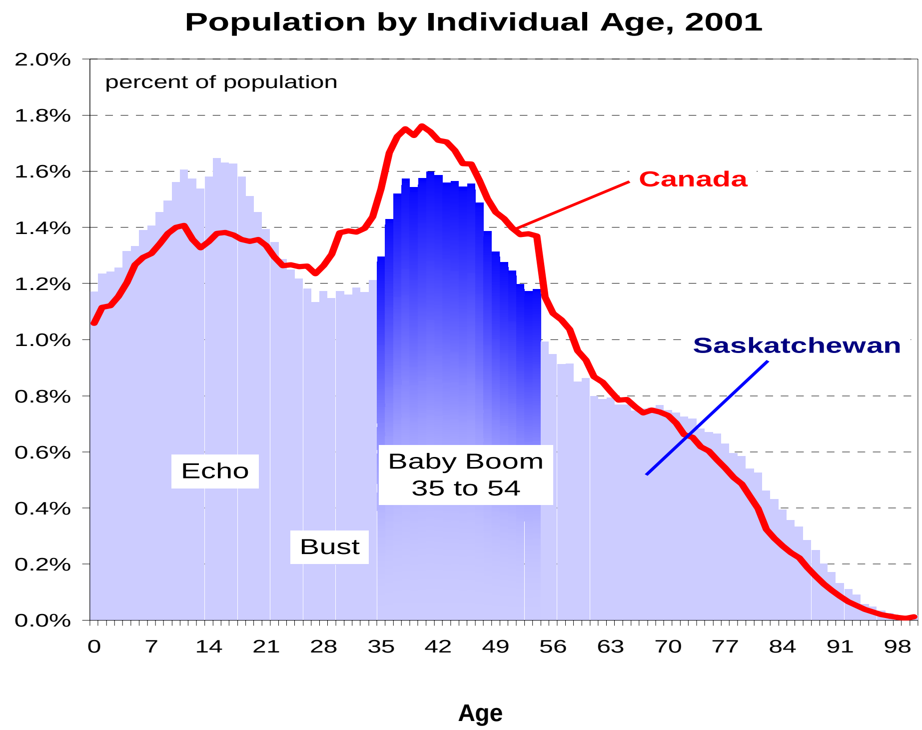
What does Saskatchewan's working age population look like?

The overall population of Saskatchewan has been at approximately one million for the past twenty years and is projected to remain around this level in the future. However, the makeup of this population is changing. Changes in the makeup of the population will put pressure on organizations to change the makeup of the workforce. Succession planning helps organizations respond to these changes.

Saskatchewan's workforce consists of about 506,000 people aged 15 years and over. Of this age group, 5.4% are unemployed, 67.1% participate in the workforce, and the remaining 27.5% do not (e.g., retirees, disabled people, homemakers). The employed are more likely to be men (54%) than women (46%).[1]

The makeup of the workforce does not reflect the same characteristics as the general population. Saskatchewan's population, compared to Canada's, has three distinct characteristics: many more people are under age 25 and are Aboriginal, fewer people are in the prime working years of 25-54, and more people are seniors (65 and older). Exhibit 1 shows that for the next few decades Saskatchewan will have a higher than usual number of people in the over 50 age group, and in the under 25 age group.

Exhibit 1 – Population by Individual Age, 2001



Source: Saskatchewan Trends Monitor 2002 based on Statistics Canada 2001 Census.

[1] August 2002 Labour Force Survey, Statistics Canada.

The average age of the workforce is increasing. Based on the 2001 Census for Canada, by 2011, people aged 45 to 64 will represent over 30% of the nation's total population compared with only 20% in 1991.[2]

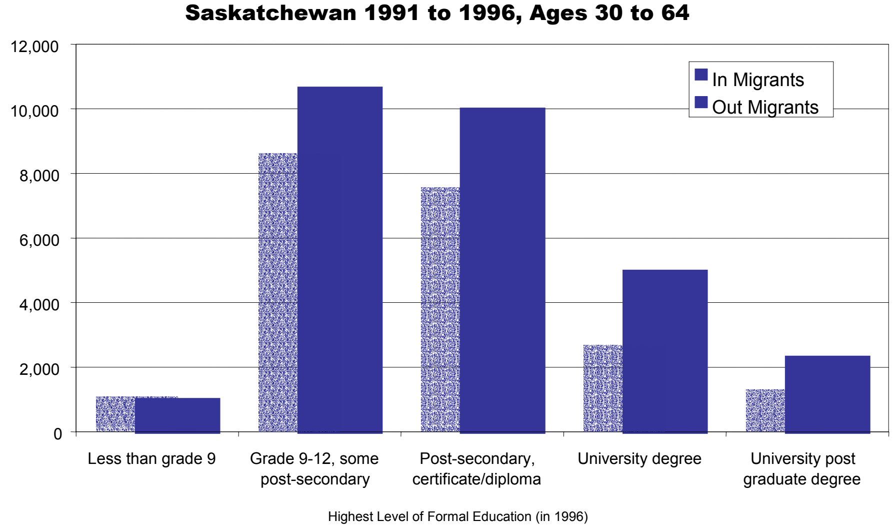
At present, Saskatchewan's working-age population is increasingly made up of older individuals (aged 45 to 64), and the proportion of young workers (aged 25 to 34) is declining.[3] This pattern is primarily due to two key factors. The first factor is the presence in the workforce of the "baby boom" generation of people born in the post World War II period (roughly 1947 to 1964). Not only is this a large group of people now over 40, but as a group the "baby boomers" deferred childbearing. This resulted in fewer young people to enter the workforce during the 1990s. The second factor contributes to that effect, as a lack of entry-level work opportunities encourages a consistent out-migration of educated young people from Saskatchewan. The combined impact of these factors on the workforce makes succession planning in the public sector urgent at this time.

The "baby boom" generation will become 65 years of age during 2010 to 2030. Currently, Saskatchewan government employees retire, on average, at age 62, and the current trend for all employees is for earlier retirements. This may change. However, at present, all jurisdictions across Canada, including Saskatchewan, expect to experience a higher than average retirement rate during 2005 to 2025. Economists also predict increasing global competition for talent as other countries also face the retirement of the "baby boom generation."

Today, people are more mobile. They change locations, jobs, and careers more often. For the past thirty years, Saskatchewan has been a net exporter of people, particularly of youth. Exhibit 2 shows the migration pattern in the 1990s. In general, the people who moved out of Saskatchewan were better educated than those who moved into the province. Immigration into Saskatchewan has averaged 1,500 to 2,500 persons per year.

[2] Profile of the Canadian Population by Age and Sex: Canada Ages.
[3] Profile of the Canadian Population by Age and Sex: Canada Ages.

Exhibit 2 – Interprovincial Flows by Education Level



Source: Saskatchewan Trends Monitor September 1998 based on Statistics Canada 1996 Census.

What does Saskatchewan's public sector workforce look like?

A starting point for succession planning is to determine the makeup of the current workforce. The Saskatchewan Government employs over 50,000 people. About 80% of these government employees work with agencies, commissions, regional health authorities, and Crown corporations (e.g., SaskPower, SaskTel).[4] The remaining 20% work in government departments.

Based on information from the Saskatchewan Public Service Commission (PSC) and the Crown Investments Corporation of Saskatchewan (CIC), employees working for the Saskatchewan Government are more likely than private sector employees to be "baby boomers" (i.e., currently in the 35 to 54 age group), and less likely to be under 30 years of age.

The average age of employees working in government departments is 42.5 years and 24% are age 50 or older. Based on current trends, up to 77.5% of existing managers in government departments could retire between 2000 and 2020, with most retirements between 2008 and 2020. The impact may be great as both middle and senior managers[5] will retire

[4] Provincial Auditor Saskatchewan. (1998 Spring). *Chapter 16 – Staffing the Public Service.*
[5] Management and Professional Levels 1-6 in the Public Service.

over the same time. This could create a serious gap in corporate memory and skill.

Employees working with the CIC Crown corporations have a similar average age and expected retirement pattern as government departments. Both the PSC and CIC recognize that they must manage this potential loss of management and leadership skills before 2010.

Consistent with the overall workforce, the Government's workforce does not reflect the makeup of the general population. Aboriginal people, disabled people, and people who are visible minorities are under-represented in government agencies relative to the general population.[6] For example, in government departments and CIC Crown corporations, Aboriginal employees represent an estimated 3-10% of the workforce. In the regional health authorities' workforce, women are overrepresented (82.7%) relative to the general population.[7] Also, for example, women in government departments represent 35% of professional or executive positions.[8] More detailed workforce information on other Crown agencies, commissions, and health authorities is not readily available, but it is expected to be similar.

Saskatchewan: Who will be the workers of tomorrow?

An understanding of the expected makeup of the future workforce is necessary when developing recruitment strategies and assessing workforce needs. Organizations need strategies today to ensure that a suitable supply of workers will be available in the future. In addition, organizations may have to adjust some of their workforce needs to respond to potential shortfalls of certain types of workers.

Past trends suggest that young people born in Saskatchewan will form most of our future workforce. In 2001, young people aged 19 and under accounted for 29% of the general population, the highest level of youth among all provinces. One in five Saskatchewan young people is Aboriginal.

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[6] Saskatchewan Public Service Commission, December 2001, Crown Investments Corporation of Saskatchewan, December 2001.
[7] SAHO Payroll information system.
[8] PSC Strategic Plan 2001/02 – 2004/05 page 10 and 11.

As shown in Exhibit 3, educational attainment is not even across all population groups. The lower high school graduation rate of Aboriginal youth is of greatest concern. To some extent, employment opportunities and other levels of education depend on graduating from high school.

Exhibit 3 – Educational attainment of Saskatchewan people age 15+

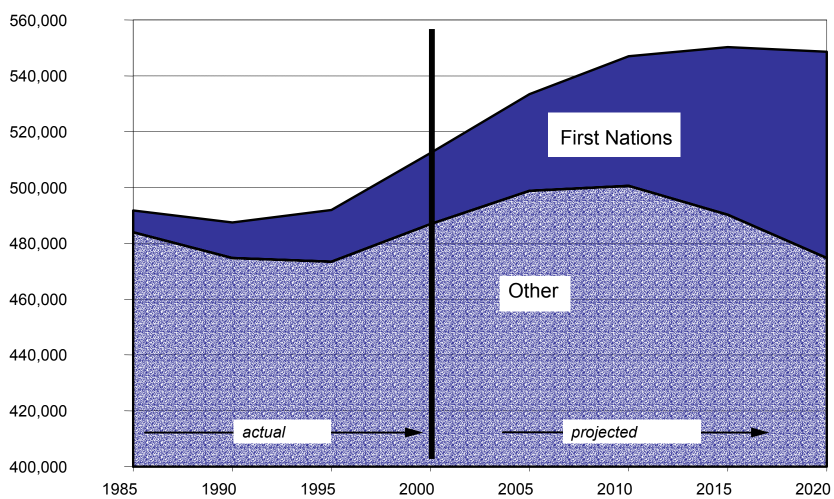
	Saskatchewan General population (2001 Census)	Saskatchewan Aboriginal population (1996 Census)
High School Graduate	21%	6.4%
Certificate / Diploma	27.4%	11.1%
University Degree	11.2%	3.9%

Source: Statistics Canada – note variation in the year of the census data

The 1996 Census has the most recent data available containing reliable statistics about Aboriginal people. Statistics Canada expects to release Aboriginal People Profiles from the 2001 Census in early 2003.

As shown in Exhibit 4, First Nations people form a rapidly growing part of Saskatchewan society.[9] By 2020, Statistics Canada predicts that a large proportion of the workforce in Saskatchewan will be Aboriginal.[10]

Exhibit 4 – Projected labour force



Source: Saskatchewan Trends Monitor 2001

[9] Aboriginal people include Inuit, Métis and First Nations people. Exhibit 4 is based on Registered First Nations people, the largest group of Aboriginal people in Saskatchewan.
[10] Statistics Canada, 1996 Census: Dimensions Series. *Portrait of the Aboriginal Population in Canada*.

Impact of issues on the public sector

Two issues will impact the public sector sooner than the private sector. As a result, these issues create a critical need for succession planning in the near term. First, public sector agencies are at risk from higher levels of retirements sooner than in the private sector. Second, a 1995 Government policy expects public sector agencies to lead the way toward a workforce that represents the makeup of the general population.

These issues create critical human resource challenges for public sector agencies during the years ahead. Agencies must consider these issues in the development and implementation of their succession plans. In addition, central agencies must play an important collaborative role to ensure that all government agencies manage these issues.

To manage the issues associated with these trends, public sector agencies must:

- plan for an expected ‘bubble’ of retirements over the next 20 years to reduce the risk of loss of key skills and corporate memory;
- achieve a diverse government workforce that reflects the projected provincial population; and
- prepare a talent pool sufficient to provide a continuous supply of people with the required key skills at the right time.

Saskatchewan is fortunate to have a young population on which it can draw for its future workforce. Continued attention from the education sector will be essential to secure an educated labour pool. Training and education must be available in the areas of future need, and it is critical to communicate to young people and their parents which skills the future workforce is most likely to require.

The Saskatchewan Labour Force Development Board reports that many Saskatchewan organizations have begun to develop succession plans.

The Board encourages them to show leadership and encourages others to move forward their planning efforts.[11]

The time frame for effective public sector action to manage these issues is short. To ensure that Saskatchewan public sector agencies have the right people with the right skills in the right place at the right time, public sector agencies need sound long-term succession plans immediately.

Planning for succession

Planning for succession requires an organization to assess its key competency requirements based on its long-term strategic direction. Key competencies include management, operational, technical, administrative, and leadership knowledge and skills essential to sustain an organization. Untimely loss of key competencies can create weak links in critical systems and can significantly affect the ability of an organization to achieve its objectives.

In addition, planning for succession involves developing strategies to build a talent pool of people with the key competencies that an organization will require into the future. It is a systematic and deliberate effort by the organization to ensure continued competencies.

As highlighted, many factors can influence succession plans. The key factors are:

1. the demographic characteristics of the current workforce;
2. the ability to attract and retain a talent pool;
3. the proportion of positions that require specialist education and/or knowledge;
4. the access to experienced employees who can be effective mentors;
5. the capacity to use teams and other alternative work patterns that help to preserve corporate knowledge; and
6. the ability of managers to use flexible human resource solutions.

[11] 2002 Training for Excellence Awards: Recognizing Excellence in Saskatchewan's Workforce Development, Saskatchewan Labour Force Development Board.

Confirming best practices for public sector agencies

In Exhibit 5, we set out three principles and related best practices for succession planning in public sector agencies.

These best practices reflect a summary of relevant literature and discussions with representatives of Saskatchewan's major government employers. We also benefited from the work of auditors in New Zealand, Australia, and the United Kingdom.

To confirm these best practices, we consulted with an external advisor with expertise in the area of human resources, succession planning, and public sector renewal. We also sought and incorporated the input of officials in organizations that represent the major government employers in Saskatchewan's public sector.

The organizations that we consulted were:

- ♦ the Public Service Commission of Saskatchewan,
- ♦ the Crown Investments Corporation of Saskatchewan,
- ♦ the Personnel Policy Secretariat, Department of Finance, and
- ♦ the Saskatchewan Association of Health Organizations.

Exhibit 5 – Best Practices for Public Sector Succession Planning

Succession planning in the public sector:

1. **reflects the agency's long-term strategic direction**
   - integrates succession plans with agency's long-term direction
   - involves staff to keep succession plans open and transparent
   - promotes knowledge transfer to achieve long-term strategic direction
2. **requires government leaders to take actions to build a talent pool for succession**
   - nurtures a positive work environment
   - invests in developing skills
   - removes barriers to retention and recruitment of skilled people
3. **coordinates key human resource strategies**
   - maximizes career opportunities within agencies and across government to encourage staff retention
   - attracts talented candidates
   - encourages sharing of human resource information across government

We hope that these principles and best practices will help the public sector use succession plans to manage the risks to its human resources over the next two decades. These best practices go beyond the traditional view that succession planning takes inventory of current human resources, identifies future needs, and then creates strategies for filling in the gaps.

These best practices recognize the interdependency of human resource activities across the various agencies in the Saskatchewan public sector. In addition, they recognize that the agencies must fully integrate the Government's goals for a diverse workforce into their succession plans.

Implementing best practices in the public sector

The following briefly describes each principle that represents a group of best practices for succession planning in the public sector. The descriptions do not necessarily reflect current practice within the Saskatchewan public sector. We have not compared the practices used in Saskatchewan's public sector to those described below.

The best practices are meant to serve as a guide. We encourage Saskatchewan public sector agencies to tailor these practices to meet their specific needs and conditions. Each public sector agency will need to set priorities and choose best practices that address the human resource risks that it faces or anticipates.

1. Reflects the agency's long-term strategic direction

Effective public sector agencies use their long-term strategic direction to guide decisions. Their succession plan must reflect their vision. For public sector agencies, succession plans must be consistent with their own and the Government's overall strategic direction (e.g., representative workforce strategy).

Succession planning is integrated with the agency's normal planning processes. Succession plans form part of the agency's human resource plans and show how the agency will work with other agencies in this area. To build a succession plan, public sector agencies must identify the competencies available and those most critical to achieve their long-term vision. When current skills do not match future needs, the succession plan sets out ways to close the gaps in the near, mid and long term. Partners in the education sector help managers address the skills gap. Measurable succession targets help managers monitor their progress in managing human resource risks.

In the public sector, managers, whether they are line managers or in human resources positions, contribute to the development of the plan and know that they are responsible for action. Managers must keep their employees informed about which competencies are essential to achieve the agency's strategic direction. Effective managers measure and regularly report their agency's progress toward their succession targets.

Succession planning promotes the transfer of knowledge to achieve the agency's long-term strategic direction. Use of up-to-date orientation material forms an effective base for knowledge transfer, but it is seldom enough. Flexible training and development plans recognize individual strengths and take advantage of mentoring or internship opportunities. Managers encourage their staff to use project teams and other staffing patterns that promote knowledge transfer between experienced and entry-level staff.

2. Requires government leaders to take action to build a talent pool for succession

Public sector agencies face special challenges to attract talented staff to serve the public. The public sector continues to offer a variety of careers and opportunity for advancement, but it no longer has the job security that some regarded as an advantage over the private sector. As a result, government leaders must act in ways that will attract people to work in the public sector, retaining current talent as well as drawing in new talent. Government leaders must take actions, such as the following, to help build a talent pool over time.

Succession planning must nurture a positive work environment. Creating a positive work environment is more than advertising the desired image to the public and to employees. It takes concrete and consistent actions.

Consistent recognition, in a public way, of the contributions of public sector employees creates a positive workplace, and supports recruitment of new talent. By making known specific achievements, leaders can foster pride in quality service. Leaders also act as positive role models when their own actions emphasize preparing for the future.

Succession planning invests in developing people. To help ensure a future talent pool, leaders consistently develop employees by allocating resources to development, and by offering special assignments and growth opportunities. Central agencies can play an important role in this area. Senior managers contribute by supporting those who use succession planning effectively.

Succession planning removes barriers to the retention and recruitment of skilled people. The public sector is often bound by central controls and government-wide restrictions. While these are necessary at times to achieve certain government objectives such as a representative workforce, leaders must ensure that they do not become limitations or impair the quality of the talent pool. Leaders must make it possible and acceptable to use flexible solutions to attract, develop, and retain skilled people.

In both the private and the public sectors, some barriers to a strong talent pool are related to provisions in collective agreements. For example, hiring based on seniority makes entry-level recruitment more difficult. Leaders work with unions to remove or reduce barriers to flexible solutions. Over the long term, compensation and benefits can be useful tools to build a talent pool.

3. Coordinates key human resource strategies

Succession planning in the public sector attracts talented candidates to become employees in the Saskatchewan public sector and creates conditions that encourage them to stay. In the near future, senior managers could consider coordinating recruitment for key competencies across the Government. Such practice would maximize opportunities to find relevant positions for people interested to serve as public employees. It could also improve the Government's ability to use strategies to recruit now for skills needed in the future. Many skills will be required, but among them, all agencies will need to search for candidates with strong people management skills. Good managers attract strong employees.

Succession planning in the public sector could coordinate and maximize career opportunities within agencies and across government. The Saskatchewan public sector is relatively small. Given its size, public sector agencies must encourage and support movement within and between public sector agencies. Partnerships, secondments, transfers, and exchanges all help to remove barriers to career development.

Coordination helps to make better use of public resources. Public sector agencies could share training opportunities. The leadership of senior officials is essential to identify common goals for training and other methods of maximizing career opportunities economically.

Succession planning in the public sector encourages coordinated human resource information across the Government. Central agencies take an important leadership role in sharing key information. Public sector agencies must share their workforce analysis reports. One agency's weakness may offer strength to another. For example, one agency may have an oversupply of special skills that are in short supply elsewhere. Senior managers in central agencies and representatives of major employers could benefit from joint monitoring of progress toward key succession targets such as the retention of commonly required skills.

Managers could improve their ability to manage risks if they share information about the key human resource risks they have identified for their sector. Risks that are common across government sectors are much more serious and require action in the near term. Central agencies could actively collaborate to develop strategies to mitigate these risks.

Perhaps most importantly, sharing human resource information among public sector agencies creates opportunities to share successes and lessons learned. Each agency can learn not only from their own experiences, but can also benefit from the errors and innovations of others.

Future audits

During the next few years, our Office plans to use the above principles and best practices to help us examine and report on how selected public sector agencies use succession planning to manage their risks.

We encourage public sector agencies in Saskatchewan to use the principles and best practices described in this report when planning for succession. We hope this report will assist the Saskatchewan Government in managing many of its future human resource risks. Good succession planning will help ensure the Government has the human resources to deliver its programs effectively.

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Health

5

Executive summary

Part A of this chapter sets out the results of our audits of the Department and its Crown agencies. The Department should improve the way it directs and monitors the performance of its agencies. In particular, the Department should approve the annual budgets of health districts before their fiscal year begins. As well, the Department needs to improve the financial reports it uses for decision-making. The reports do not include what the Department owns and owes.

Part B sets out six financial measures that can be used to assess the sustainability of health spending. A sound understanding of health spending is important for an informed debate about the health issues facing Saskatchewan. Those issues pertain to the affordability of programs and services and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

Part C describes the results of the audits of 10 health districts for the year ended March 31, 2002. On August 1, 2002, the Government replaced 32 health districts with 12 regional health authorities (RHAs). Part C contains useful guidance to boards of directors of RHAs on setting direction, monitoring performance, safeguarding assets, and ensuring adequate accountability to the Legislative Assembly.

Part D describes the results of our follow-up of our 2000 Fall Report – Volume 3 recommendations on the Department's processes to establish appropriate accountability relationships with health districts for capital construction projects. The Department needs to continue to take action to fully implement our recommendations.

Part E reports the results of our follow-up of our 2000 Fall Report – Volume 3 recommendations on the information received by boards of directors of health districts to help them make financial decisions. We urge the Department to give district boards guidance on their information needs.

Health

5A

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Introduction

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services, and funding to health providers and health agencies.

For the year ended March 31, 2002, the Department received $2.20 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of $15.7 million. The Department's annual report contains information about the Department's revenues and expenses (annual report available at http://www.health.gov.sk.ca/).

Government spending on health

Table 1 shows total health revenues of $2.425 billion by source. Table 2 shows total health costs of $2.477 billion by program. In this chapter, we refer to all of these organizations together as the "Health System". The costs in Table 2 do not include Indian and northern health services, because the Federal Government pays these costs, nor the costs that individuals and private sector organizations pay for private health services.

Crown agencies

The Department is responsible for the following Crown agencies with March year-ends:

Board of Governors, Uranium City Hospital
Health Services Utilization and Research Commission
Saskatchewan Cancer Foundation
St. Louis Alcoholism Rehabilitation Centre
Saskatchewan Health Information Network
Thirty-two district health boards (see Chapter 5, Part C – District Health Boards).

Table 1

Health **Revenues** by Source for the year ended March 31
(in millions of dollars)

	2002	2001	2000	1999	1998	1997	1996
General Revenue Fund (GRF)	$ 2,200	$ 2,076	$ 1,956	$ 1,789	$ 1,677	$ 1,608	$ 1,555
Service fees revenue	110	109	99	97	99	95	94
Transfers from other governments	28	23	21	21	19	17	24
Ancillary revenue	20	18	17	16	15	15	15
Donations	15	17	12	16	15	9	12
Investment income	9	11	11	9	9	10	11
Other	43	38	43	55	28	42	26
Total revenues	$ 2,425	$ 2,292	$ 2,159	$ 2,003	$ 1,862	$ 1,796	$ 1,737

Table 2

Health **Costs** by Program for the year ended March 31
(in millions of dollars)

	2002	2001	2000	1999	1998	1997	1996
Acute Services	$ 945	$ 864	$ 832	$ 713	$ 657	$ 625	$ 537
Supportive care services	439	414	382	358	332	336	371
Medical services and education	421	401	384	392	384	353	346
Prescription drug plan and extended benefits	156	141	128	115	98	94	93
Home based services	91	91	86	79	76	68	58
Provincial health services	86	78	64	64	59	49	65
Mental health services	63	58	55	51	46	42	40
Community health services	56	53	52	50	44	39	31
Rehabilitation services	54	43	44	39	37	38	36
Emergency response services	40	35	25	22	21	21	22
Health improvement initiatives	25	27	25	25	29	26	77
Administration	26	20	35	25	25	25	20
Ancillary	14	12	12	11	10	9	9
Alcohol and drug services	15	13	13	11	9	6	5
Other	46	31	26	28	13	43	27
Total expenses	$2,477*	$ 2,281	$ 2,163	$ 1,983	$ 1,840	$ 1,774	$ 1,737

Source: *Public Accounts: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts) and the March 31, 2002 financial statements of the District Health Boards and other government health agencies.

* The Government's Summary Financial Statements (SFS) for the year ended March 31, 2002 show health costs of $2,424 million, a difference of $53 million from the total health costs in Table 2. This difference is due to: 1) differences in accounting policies for tangible capital assets, inventories, and district health board foundations; and 2) inter-entity expense eliminations and adjustments within the SFS not recorded in the health costs in Table 2.

Comparable health indicators report

In September 2000, all First Ministers in Canada prepared a news release communicating to Canadians their vision of health: *Canadians will have publicly funded health services that provide quality health care and that promote the health and well-being of Canadians in a cost-effective and fair manner*.

In this communication, the First Ministers committed to preparing reports on the performance of health systems of each provincial and territorial government and the Federal Government starting in September 2002. The First Ministers expected the reports to describe each health system's performance in several indicator areas.

On September 30, 2002, the Department issued a report on 61 health indicators, entitled: *Saskatchewan Comparable Health Indicators Report* (Indicators Report). The Indicators Report (available at http://www.health.gov.sk.ca/) provides new and vital information on the performance of Saskatchewan's health system. The Report includes a comparison of the performance of Saskatchewan's health system with the health systems in other Canadian jurisdictions.

The Indicators Report is the result of hard work by the Department over several months. The Indicators Report helps readers to understand the effect of health services on the health and well-being of Saskatchewan residents. For many years, our Office has promoted improved performance reporting by the Government and its agencies. Public performance reports should show the effects of government services on citizens. They should show outcomes or results, not just levels of spending and services.

The Indicators Report notes that some information systems used to produce the health indicators need improvement. The Report further states that the Department intends to work with regional health authorities and other agencies to improve the information systems.

The Legislative Assembly and the public need to know that the Indicators Report is reliable and comparable with other jurisdictions. We worked with all legislative auditors in Canada to ensure that we each provide consistent audit assurance based on professional standards. Our auditor's report on the reliability of the Indicators Report is included in the Report and is reproduced in Exhibit 1 of this chapter.

We congratulate the Department on its preparation of the report on health indicators. The Indicator Report is a continuing work in progress. Management has set out in the Report limitations in the reliability of the health indicators. Management has fairly stated the limitations and why they exist. We encourage readers to use the Report, but in doing so, to keep in mind management's explanations of the limitations.

All Ministers of Health in Canada have agreed to prepare comparable health indicators reports again in 2004. We plan to audit Saskatchewan's 2004 indicator report.

Our audit conclusions and findings

We have completed the audit of the Department of Health and the Crown agencies listed earlier except for the audit of Board of Governors, Uranium City Hospital. We will report the results of that audit in a future report. We report the results of the Department and other agencies below.

In our opinion, for the Department and its agencies for the year ended March 31, 2002:

- **The financial statements for the agencies listed on page 67 are reliable;**

- **the Department and its agencies had adequate rules and procedures to safeguard and control their assets except for the matters reported in this chapter; and**

- **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.**

We also include our assessment of the Department's annual report for the year ended March 31, 2002 on page 79.

We report the results of our audits of the District Health Boards in Part C of this chapter.

Department needs to approve district plans on time

The Department should approve the districts’ annual health plans before the fiscal year begins (April 1). The Department paid $1.4 billion to 32 districts to provide health services.

The Department requires districts to prepare health plans that outline their financial and operational plans. The districts prepare these plans in consultation with the Department. The Department uses these plans to establish the districts' expected financial and operational performance.

The Health Districts Act requires the districts to submit their annual health plans to the Department for approval. The Department asked the districts to submit their financial plans for the year April 1, 2001 to March 31, 2002 by June 15, 2001. We think the Department should receive and approve the health plans before the year begins.

The Department approved the 32 districts health plans as follows: 12 in July 2001, four in August, five in October, and 11 in February 2002.

While the Department regularly discusses health plans with the districts, timely approval of the plans is important to ensure that the Department and the districts have a common understanding of annual and long-term priorities and goals. Making decisions without a common understanding of priorities and goals may result in the Department and the districts making inappropriate decisions.

We reported this matter in previous reports. In January 1999, the Standing Committee on Public Accounts (PAC) agreed with our recommendation and recommended that the Department, to the best of its ability, provide the districts with an indication of their funding levels for the next two or three years. The Department has not done this.

We continue to recommend that the Department approve the health districts’ annual health plans before their fiscal year begins (April 1).

Department needs a capital asset plan for districts

The Department needs a capital asset plan for the districts to help ensure that they have adequate capital assets to deliver essential health services. Capital assets include buildings and equipment.

The Department is responsible for health care in the province. It uses districts to deliver health care. The districts use $900 million of capital assets to deliver health care.

A capital asset plan would document decisions intended to ensure that districts have the capital assets required to deliver their services effectively, efficiently, and economically. A capital asset plan would help the Department and the districts select the capital assets that have the best value and keep them in good working order. Chapter 7 – Justice sets out the criteria for capital asset plans.

Without a capital asset plan for the districts, the Department cannot ensure that the districts have adequate capital assets to deliver essential health services.

1. We recommend that the Department develop a capital asset plan for the districts to help ensure that the districts can deliver essential health care services.

Department needs to improve its capital project agreements

The Department should improve its capital project agreements with districts to help ensure that the Department can meet its objectives for capital construction.

The Department makes capital project agreements with districts to construct or renovate health facilities. The Department has long-term commitments to spend $70 million on major capital construction projects. The Department spent $5.9 million on these projects in 2001-02.

The agreements should require districts to provide timely reports to the Department on:

- the status of the construction project at the date of the report (actual compared to plan for requirements, cost, work completed; and explanations of differences between planned and actual results);
- what the district has accomplished since the last reporting period (actual compared to plan for cost and work completed, and explanations of differences between planned and actual results);
- the estimated time and cost to complete the construction project;
- the status of the expected benefits, whether the benefits are still achievable, and if not, the effects, if any, on the project plan; and
- the status of the construction project's risks, new risks, and how the risks are being managed. Reports would include explanations of any change in the status of key risks from the last reporting period and the reasons for the change in status.

Without this performance information, the Department cannot ensure that capital projects managed by districts meet the Department's objectives. As well, the agreements need to set out a process for the Department to verify that the districts' performance information is reliable.

We reported this matter in previous reports. In May 2001, PAC agreed with our recommendation.

We continue to recommend that the Department's capital construction agreements:

- require health districts to provide the Department with adequate and timely performance information on capital construction projects; and
- describe the Department's process for verifying performance information.

Department needs better reports from districts

The Department needs complete and timely information to ensure that the $1.4 billon of public money entrusted to districts is used properly.

Districts' annual reports do not adequately show their program performance compared to their plans. The Department requires districts to report on their program performance compared to their plans in their annual reports. The Department has issued guidelines to help districts to prepare their annual reports.

We recognize that several districts have improved the quality of their annual reports by starting to report performance measures. The districts' annual reports still do not, however, adequately report on program performance compared to planned performance. Many reports do not set targets for desired service outcomes and do not show actual outcomes. As a result, the annual reports are not as effective as they could be in enabling the Department to assess the effectiveness of the districts' programs on the health status of residents.

We also reported this matter in previous reports. In January 1999, PAC agreed with our recommendation.

We continue to recommend that the Department work with health districts to ensure they submit complete and timely performance reports.

Service agreements with districts need improvement

The Department needs to improve its service agreements with districts to ensure the appropriate use of public money.

The Department carries out many of its responsibilities through districts. Therefore, the Department needs service agreements with districts to ensure that the delivery of health care by districts achieves the Department's objectives.

The service agreements are adequate, except that they do not require the districts to report periodically their assessments of the control they have established to achieve the Department's operational objectives. Control comprises those elements of a district (including its resources, systems, processes, culture, structure, and tasks) that, taken together, support people in the achievement of the Department's objectives. To meet its responsibilities, the Department must know that the districts have systems, processes, and other control elements to ensure the proper use of public money entrusted to the districts.

We also reported this matter in previous reports. In January 1999, PAC agreed with the following recommendation.

We continue to recommend that the Department work with health districts to ensure that the service agreements require districts to report periodically on the systems and practices they use to achieve the Department's operational objectives.

Service agreement needed with Canadian Blood Services

The Department needs a service agreement with Canadian Blood Services to ensure that it achieves the Department's objectives.

Canadian Blood Services (CBS), a not-for-profit organization, was incorporated in 1998 under *The Canada Corporations Act*. Its members are the provincial and territorial health ministers, except Quebec. The 13 member Board of Directors consists of the Chairperson, four regional appointees, six members providing business, scientific, medical, technical, or public health expertise, and two members from the general public representing consumers. Saskatchewan has no direct representation on the Board; one Board member represents Alberta, Saskatchewan, Manitoba and the North West Territories.

CBS owns and operates the national blood supply system, except for the blood system in Quebec. Its activities include recruiting blood donors, collecting blood and blood products, testing and laboratory work, processing, storage, distribution and inventory management, quality control, and the purchase and distribution of commercial blood products. CBS distributes blood and blood products to hospitals across Canada.

The Department must ensure safe blood products are provided to the citizens of Saskatchewan. The Department is also responsible for ensuring the blood supply system is effective. Therefore, the Department must ensure that the delivery of blood products by CBS achieves the Department's objectives.

CBS members provide annual contributions to pay for the operation of the blood supply system. For the year ended March 31, 2002, the Department paid CBS $29.8 million. The Government of Canada and CBS members signed a Memorandum of Understanding (MOU) in December 1997 documenting their understanding regarding their respective roles and responsibilities in a renewed national blood system. However, the Department has not made a service agreement with CBS to ensure that CBS achieves the Department's objectives.

The MOU includes the following matters usually found in a service agreement:

- describes the authority and responsibility of the Department and CBS;
- describes the services to be provided;
- describes the basis for paying for those services; and
- allows the Department access to CBS's records and personnel to verify its reports, or to verify the reports using CBS's independent auditors.

The MOU, however, does not include the following matters usually addressed in a service agreement:

- describes the financial, operational, and compliance objectives needed to manage the delivery of Saskatchewan's blood supply through CBS successfully. The agreement should require CBS to carry out its work to meet those objectives;
- ensures that the Department receives accountability reports from CBS, including reports showing planned and actual results, compliance with legislative and related authorities, and how well CBS met the Department's objectives; and

- requires CBS to periodically report its assessments of the control it has established to achieve the Department's objectives.

We encourage the Department to make a service agreement that addresses the above deficiencies and the points already included in the MOU. The lack of a service agreement could result in the inappropriate use of public money entrusted to Canadian Blood Services.

We reported the lack of a service agreement in previous reports. In May 2001, PAC agreed with our recommendation.

We continue to recommend that the Department make a service agreement with Canadian Blood Services to ensure it achieves the Department's objectives.

Policies needed for the Department's internal financial reporting

The Department needs clear written policies and procedures for preparing sound internal financial reports to support good management decision making.

The Department’s management needs timely, complete, and accurate financial reports throughout the year to help it make sound decisions. Adequate written guidance approved by senior management would help staff to prepare reliable internal reports. Reliable and relevant reports should result in better management decisions.

The financial reports management uses to make decisions are incomplete. The reports show the results of the Department’s operations (i.e., its revenues and expenditures), but not what the Department owns and owes (i.e., its assets and liabilities). As well, the financial reports do not include the assets, liabilities, revenues, and expenses of the health agencies for which the Department is responsible. These agencies include the thirty-two district health boards, the Saskatchewan Cancer Foundation, the Saskatchewan Health Information Network, the Health Services Utilization and Research Commission, the St. Louis Alcoholism Rehabilitation Centre Inc., and the Board of Governors, Uranium City Hospital. These agencies have assets of $1.2 billion, liabilities of $300 million and revenues of $200 million (not including revenue received from the Department).

Users of performance reports tend to focus on the information presented in the reports. Because managers do not receive regular reports on what the Department owns and owes, they focus on annual operations and ensuring that the Department does not overspend its appropriation. Managers tend to pay less attention to the assets and liabilities they must manage well to provide needed services including the assets and liabilities of the above health agencies.

We recognize that the lack of complete financial statements for government departments is a government-wide issue. Supervising agencies need to lead the preparation of departmental financial statements that include common accounting policies and statement presentation.

The Deputy Minister should approve adequate internal financial reporting policies and procedures to ensure that senior management receives the information it needs to manage the Department.

We reported this matter in previous reports. In January 1999, PAC agreed with the following recommendation.

We continue to recommend that:

- the Department document policies and procedures to prepare sound internal financial reports; and
- the Deputy Minister approve the Department's internal reporting policies and procedures.

Rules and procedures for drug payments not followed

The Department needs to follow its rules and procedures for “exception drug status” (EDS) payments.

The Department has adequate rules and procedures for approving payments for drugs that are normally ineligible for payment. An ineligible drug may receive EDS payments if it proves to be more effective than the eligible drugs for treating the patient. EDS drugs are often more expensive than eligible drugs. The cost of the EDS Program has risen from $15.4 million in 1998-99 to $37 million in 2001-02.

Physicians, dentists, optometrists, and pharmacists may apply to the Department for EDS coverage on behalf of their patients. Applicants can submit requests to the Department by telephone, mail, or fax. The Department's policy is to review the applications to ensure that they satisfy the criteria (i.e., qualifying diagnosis) before approving the drug for EDS coverage.

The majority of EDS coverage requests come from pharmacists. The Department requires pharmacists to document the physician's diagnosis for each EDS coverage request.

During 2000-01, the Department studied 31 of 375 pharmacies to determine if pharmacists obtained the patient's diagnosis for EDS requests from the physician and appropriately recorded the diagnosis. The Department found that in many cases, pharmacists were either not recording the diagnosis or the source of the diagnosis. The Department paid for these EDS drugs.

After the study, the Department communicated with pharmacists to remind them to document the diagnosis before applying for EDS coverage. This documentation is critical to ensure that the Department only pays for drugs that meet its EDS standards. The Department, however, has not followed up to determine if pharmacists' documentation has improved.

Lack of compliance with the Department's rules and procedures for EDS coverage could result in unauthorized and unnecessary drug payments.

2. We recommend that the Department follow its rules and procedures for "exception drug status" payments.

Annual report needs improvement

We reviewed the Department's annual report for the year ended March 31, 2002.

We are pleased to note that the Department continues to improve its annual report. The major improvement in this year's annual report is a section setting out the Department's Performance Plan for 2002-03. This plan shows the Department's objectives, performance measures, and the current performance level for each performance measure, but as yet no performance targets.

The annual report has begun to set out a few financial performance measures that the Department uses to assess the financial performance of the health system. To encourage the Department to continue to develop financial measures and to set financial targets, we set out in Part B of this chapter some examples of financial measures that the Department might use.

The annual report does not contain a complete set of financial statements for the health sector. It shows most of the Department's revenues and expenditures, but not what the Department owns and owes.

The annual report does not include public timely performance information on major capital construction projects (long-term planned spending of $40 million). As a result, the public does not know whether the construction costs were within planned costs, whether there were any significant changes to the projects, and whether the expected projects' benefits were achieved.

Public confidence in the health system is important to the Department's success. While many factors are involved, public confidence will improve as the Department continues to improve the content of its annual report.

We also reported this matter in previous reports. In February 2002, The Standing Committee on Public Accounts (PAC) agreed with our recommendations except that PAC did not agree that the Department include a complete set of financial statements in its annual report.

We continue to recommend that the Department's annual report include the Department's:

- financial performance measures, performance targets, and actual results compared to plans;

- performance information on major capital construction projects; and

- financial statements.

Saskatchewan Health Information Network

The Saskatchewan Health Information Network (Corporation) was established as a Treasury Board Crown Corporation under *The Crown Corporations Act, 1993* (Act).

The Corporation manages the Saskatchewan Health Information Network (SHIN). The Corporation is to foster the development of the health information technology sector, foster re-engineering of health delivery processes, and to protect health information as a strategic resource.

The Corporation's financial statements for the year ended March 31, 2002 report revenues of $12.0 million (2001 - $6.4 million), an annual surplus of $40 thousand (2001 - $0.7 million deficit), an accumulated surplus (i.e., net financial assets) of $1.3 million (2001 - $1.2 million), and net tangible capital assets of $16.1 million (2001 - $15.7 million).

Better interim financial information needed

The Corporation's board of directors (Board) needs better interim financial information to monitor the Corporation's performance.

The Board is responsible for overseeing the activities of the Corporation. To carry out its responsibilities, the Board needs timely, accurate, and complete financial information.

The Corporation's interim reports contain information on its revenues and expenses including planned and actual results for the year to date as well as forecast information to year end. The reports do not contain complete information on the Corporation's assets, liabilities, cash flows, or commitments. The reports are not prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Using GAAP helps ensure that the financial information reported is complete and accurate. Complete financial information facilitates good decision-making.

3. We recommend that the Board receive better interim financial reports to monitor the Corporation's financial performance.

Clear delegation of authority needed

The Board needs to clarify its delegation of authority policy for the approval of expenditures and contracts.

The Board's delegation of authority policy sets out guidance and limits for transactions that management can approve on behalf of the Board. The delegation of authority policy needs to be clear to reduce the risks of misunderstandings.

The Corporation leased computer equipment totalling $667,000 from one vendor. The Board should have approved these contracts. However, management did not submit the contracts to the Board for approval because the policy for the approval of budgeted expenditures versus the approval of contracts was not clear.

4. We recommend that the Board clarify its delegation of authority policy to ensure that all contracts and expenditures are appropriately approved.

Tendering policies and procedures needed

The Board needs a documented policy and related procedures for the tendering of goods and services.

The Board has a policy for the purchase of goods and services. However, this policy does not set out when the Corporation needs to tender purchases. Tendering for goods and services helps ensure that the best value is obtained when spending public money.

As described earlier, the Corporation leased computer hardware and software totalling $667,000. The Corporation did not tender the contracts for leasing this equipment.

As a result, the Corporation may not have received the best value for its purchase of the computer hardware.

5. We recommend that the Board establish a documented policy and related procedures for the tendering of goods and services.

Exhibit 1: Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

I have audited the health indicators presented in pages 1 to 337 of the *Saskatchewan Comparable Health Indicators Report* (the Report) pursuant to the commitment under the *First Ministers' Meeting Communiqué on Health*, dated September 11, 2000. The Conference of Deputy Ministers of Health defined the specific indicators to be regularly reported to Canadians. Reporting on health indicators in accordance with suitable criteria is the responsibility of management. My responsibility is to express an opinion on the health indicators based on my audit. I have not assessed the relevance of the indicators used. My audit work was limited to the information relating to the most recent year. I have not audited the health indicators of other jurisdictions presented in the Report. As well, the Report includes a discussion and analysis for each health indicator in addition to a description of the indicator's definition, technical specifications, results and limitations. My examination of the discussion and analysis was limited to ensuring that the information is not inconsistent with the indicator results.

Except as explained in the following paragraph, I conducted my audit in accordance with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance that the health indicators presented in accordance with the criteria set out on page xxv of the Report are free of significant misstatement. An audit includes examining, on a test basis, evidence supporting the results of the health indicators and the related disclosures in the Report. An audit also includes assessing the suitability of the stated criteria and their disclosure. As well, an audit includes assessing significant judgments made by management, and evaluating the overall presentation of the health indicators.

As described on pages xxvi-xxvii of the Report, the controls established by Saskatchewan Health, Health Canada, and the Canadian Institute for Health Information were not adequate to ensure that the health indicator results those agencies produced for the Report are complete, accurate and adequately disclosed in the Report. These health indicators are listed on pages xxviii-xxix of the Report. I was unable to determine by other auditing procedures whether adjustments might be necessary to make these reported indicators complete, accurate, and adequately disclosed. (This paragraph relates to one-third of the indicators presented in the Report.)

In my opinion, except for the indicators described in the preceding paragraph for which I am unable to form an opinion, the health indicators, including the described departures from the stated criteria, present fairly in all significant respects the information required pursuant to the public reporting commitment of the *First Ministers' Meeting Communiqué on Health* in accordance with the stated criteria set out on page xxv of the Report.

Comparative health indicators relating to some provinces and territories and for Canadian government programs have been audited by other auditors while, for other provinces, auditors have been engaged to perform specified auditing procedures. Annex 1 includes an explanation of the differences between these two types of engagements and details regarding the nature of the engagements performed in each of the jurisdictions. The auditors' findings and observations resulting from engagements in other Canadian jurisdictions are included in the respective governments' health indicators reports and are not reproduced in the Report. All international health indicators are un-audited.

I am encouraged by the work undertaken by Saskatchewan Health to prepare a public report on health indicators. The Report is a continuing work in progress. Management has set out, as departures from the criteria, areas where the health indicators depart from the criteria in the Management's Representation, Appendix A, and Appendix D of the Report and throughout the Report under the heading of Limitations. Management has fairly stated the departures and why they exist. Readers are encouraged to use the Report, but in doing so, to keep in mind management's explanations of the departures.

Regina, Saskatchewan	Fred Wendel, CMA, CA
September 16, 2002	Provincial Auditor

ANNEX 1 - Verification of Comparative Information from Other Jurisdictions

The governments of Canada and the Provinces have adopted different approaches to meet the September 2000 *First Ministers Meeting Communiqué on Health* requirement for “third party verification” for their health indicators reports. Some governments have engaged their auditor to provide audit assurance on their health indicators reports and others have asked for specified auditing procedures to be applied. The paragraphs below outline the major differences between an audit assurance engagement and a specified auditing procedures engagement. For a complete comparison, please refer to The Canadian Institute of Chartered Accountant (CICA) Handbook section 5025 for audit assurance engagements and Handbook section 9100 for specified auditing procedures engagements. I think, for the reasons described in the following paragraphs, that an audit under CICA Handbook section 5025 is the best approach.

In an attest audit engagement, the auditor’s responsibility is to provide assurance to users, in the form of an audit opinion, on a report prepared by management. The auditor determines the nature, extent, timing, appropriateness, and sufficiency of audit procedures, which, in the auditor's judgment, are necessary to provide audit assurance concerning the subject matter, or the Comparative Health Indicators Report in the present context.

In a specified auditing procedures engagement, the auditor’s responsibility is to report the results of applying auditing procedures specified by management on a report prepared by management. As the nature and extent of specified auditing procedures may vary from engagement to engagement, such engagements are difficult to compare. And because the extent of the procedures performed is not sufficient to constitute an audit, the specified procedures reports do not provide audit assurance. The specified procedures report states those procedures actually applied and only the factual results of those procedures, leaving the reader to determine the fairness of the information in the health indicator reports.

The following is a list of jurisdictions that have engaged their auditor to provide audit assurance on their health indicators reports and those that have asked for specified auditing procedures to be applied.

Audit opinion	Specified Auditing Procedures
British Columbia	Alberta
Saskatchewan	Ontario
Manitoba	New Brunswick
Quebec	Prince Edward Island
Nova Scotia	Newfoundland and Labrador
Yukon	
Northwest Territories	
Nunavut	
Canada	

Financial performance measures

5B

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Introduction

The Legislative Assembly and the public often ask about the state of the Health System's finances. They want to know whether the Health System’s financial condition is growing stronger or weaker, and why. Also, many want to know where they can obtain the information required to help them make their own assessments.

A sound understanding of the Health System's finances is important to an informed debate about the issues facing the Health System. Those issues pertain to the affordability of programs and services, and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

We derived information on measures from the Government's statistical reports, the *Public Accounts 2001-2002: Volume 2: Details of Revenue and Expenditure*, and the annual financial statements of district health boards (DHBs) and other health Crown agencies. The Department’s, DHBs’, and Crown agencies’ fiscal year end is March 31. As gross domestic product (GDP), and the Consumer Price Index (CPI) are not available for a fiscal year, we use GDP and CPI statistics for a calendar year in our analysis. For example, the GDP statistic in the 2002 column is for the year ended December 31, 2001. We have not adjusted the information for inflation.

We focus on six financial and economic measures for the years ended March 31, 1995 to March 31, 2002. We have modelled the measures after the Research Report, *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants. Each measure can and should be analyzed in detail, combined with other information, and monitored over time. Three of the measures relate to health districts because they incur most of the health costs.

The measures we report on include:

- total health spending as a percentage of the Province’s GDP;
- total health spending as a percentage of the Government’s total spending;

- change in health spending compared to change in the CPI and the Province's GDP;
- districts' operating surplus or deficit as a percentage of total district spending;
- districts' working capital ratio; and
- change in the district's capital assets.

The health costs we use in these measures do not include Federal Government spending for Indian and northern health services or the costs that individuals and private sector organizations pay for private health services.

Readers should be aware that the measures will not provide them with information on trends in the health status of the province's residents or in the effectiveness of health services. The measures pertain only to the financial sustainability of the Health System.

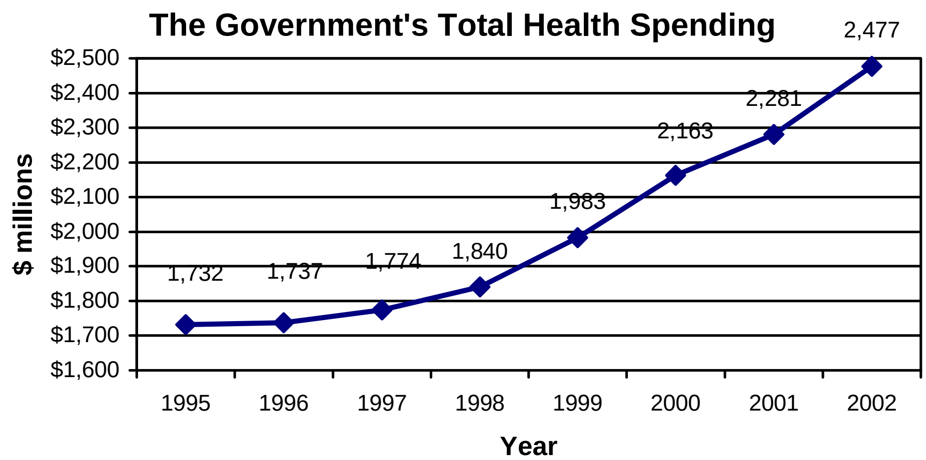
Total health spending as a percentage of the Province's Gross Domestic Product

The first performance measure of sustainability analyzes the total health spending as a percentage of the Province's GDP.

The Province's GDP is a measure of the value of goods and services produced in Saskatchewan in one year. The GDP reflects the size of the provincial economy. If health spending grows faster than the GDP, the economy may not be able to support that level of health care spending in the long run, unless the Government reduces spending on other programs or increases taxes.

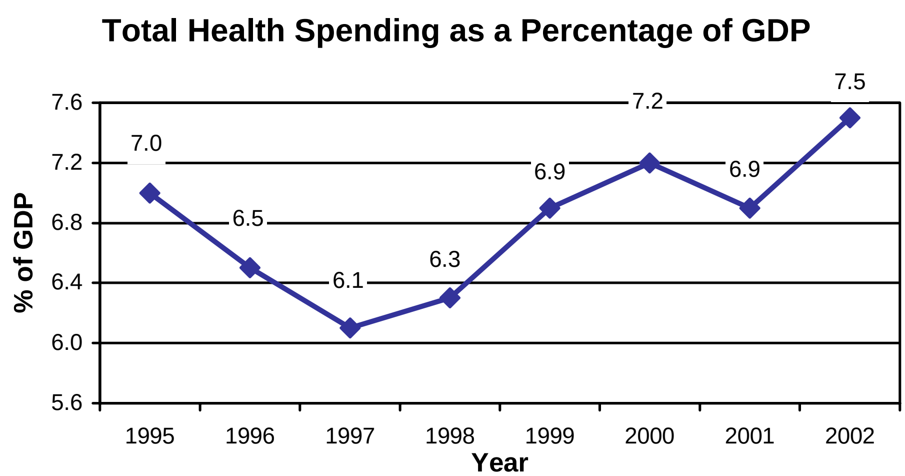
During the past eight years, the Government has increased health spending by forty-three percent from $1.732 billion in 1995 to $2.477 billion in 2002 (see graph below). Over the same period, the Province's GDP increased by thirty-three percent from $24.9 billion in 1995 to $33.2 billion in 2002.

Graph 1



The following graph shows the trend in the total health spending as a percentage of the provincial GDP from 1995 to 2002. By comparing the total health spending to the Province's GDP, we can assess the financial demands placed on the economy by health spending.

Graph 2



This comparison shows that since 1997 health spending increased from 6.1% of GDP to 7.5% of GDP in 2002. If this current trend continues, the economy may not be able to support the increasing levels of health care spending, unless the Government reduces spending on other programs or increases taxes.

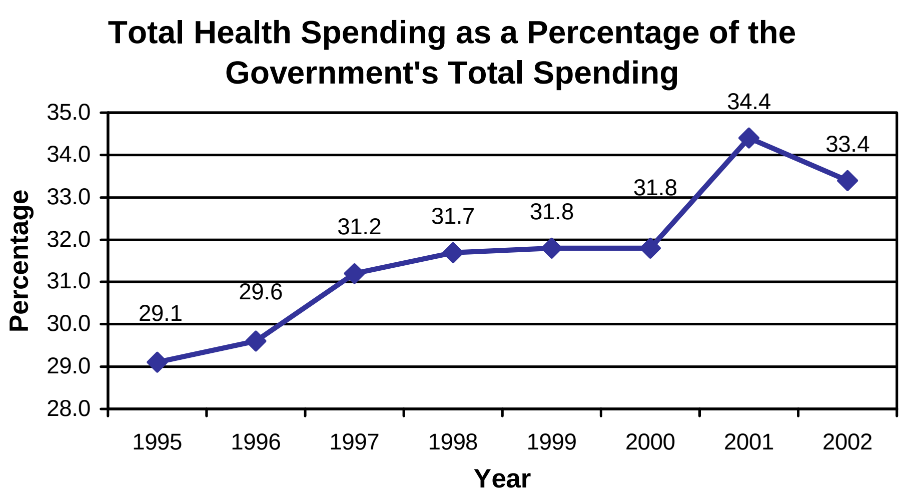
Total health spending as a percentage of the Government's total spending

The second performance measure of sustainability analyzes the total health spending as a percentage of the Government's total spending.

This measure shows the impact that health spending has on the spending to deliver other government programs. The ability to spend a greater percentage on health each year may not be sustainable because of the need to provide other necessary government services.

The following graph shows the trend in the health spending as a percentage of the Government's total spending from 1995 to 2002. By comparing health spending to the Government's total spending, we can assess the financial demands health spending places on the Government total spending.

Graph 3



This comparison shows that from 1995 to 2002, health spending has increased from 29.1 to 33.4% of the Government's total spending. The upward trend in this graph suggests a decrease in sustainability because increasing demands for health care spending is reducing the Government's ability to maintain required spending on other vital programs.

Change in health spending compared to change in the Consumer Price Index (CPI) and the Province's GDP

A third performance measure of sustainability analyzes the change in health spending compared to the change in the Consumer Price Index (CPI) and the GDP.

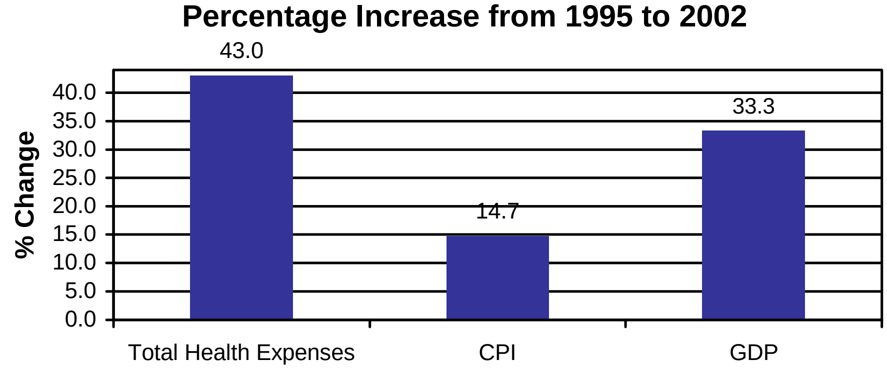
Comparing the change in health spending to the change in the CPI indicates whether health spending has kept pace with inflation. If health spending increases are significantly lower than increases in the CPI, current health programs may be at risk because health spending is not keeping up with increases in the cost of living. If health spending increases are higher than the CPI, this could indicate an unsustainable trend because health spending is exceeding inflation.

Comparing the change in health spending to the change in GDP shows the rate that health spending changed to the rate that the provincial economy changed. If health spending increases are higher than the growth of the provincial economy, this could indicate an unsustainable trend.

The following graph shows health spending is growing faster than the provincial economy and faster than inflation. Because Saskatchewan's economy is vulnerable to changes in commodity prices, interest rates, and the weather, the increases in health spending in recent years may be unsustainable. A downturn in Saskatchewan's economy could require the Government to make difficult decisions on health spending.

Graph 4

Total Health Spending Compared to CPI and GDP - Percentage Increase from 1995 to 2002



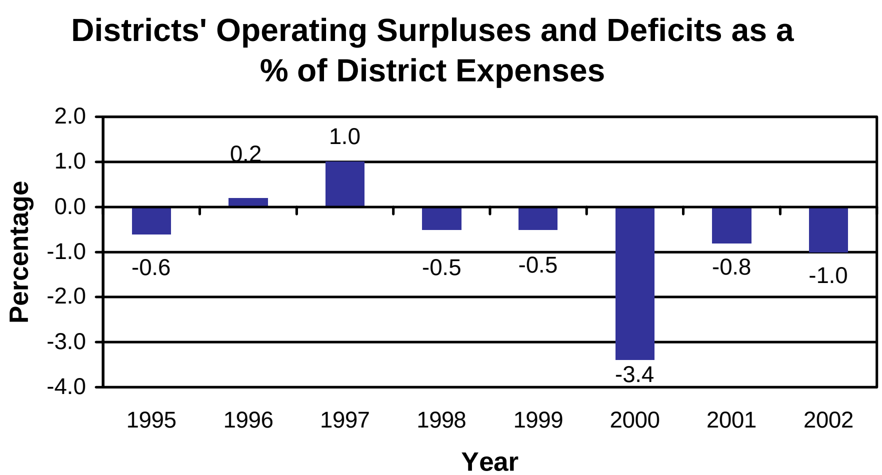
Districts' operating surpluses and deficits as a percentage of total district spending

A fourth performance measure of sustainability analyzes the districts' annual operating surplus or deficit as a percentage of total district spending.

The annual operating surplus (or deficit) shows the extent to which the districts have more (or less) operating revenue than operating expenses in a fiscal year. Districts that are able to run an operating surplus are better able to sustain their capacity to maintain their programs over the long term.

The following graph shows that since 1995, the districts fluctuated between having small annual surpluses and deficits with the exception of a large relatively large deficit in 2000. If this trend continues, districts should be able to sustain their capacity to maintain their programs over the long term.

Graph 5



Districts' working capital ratio

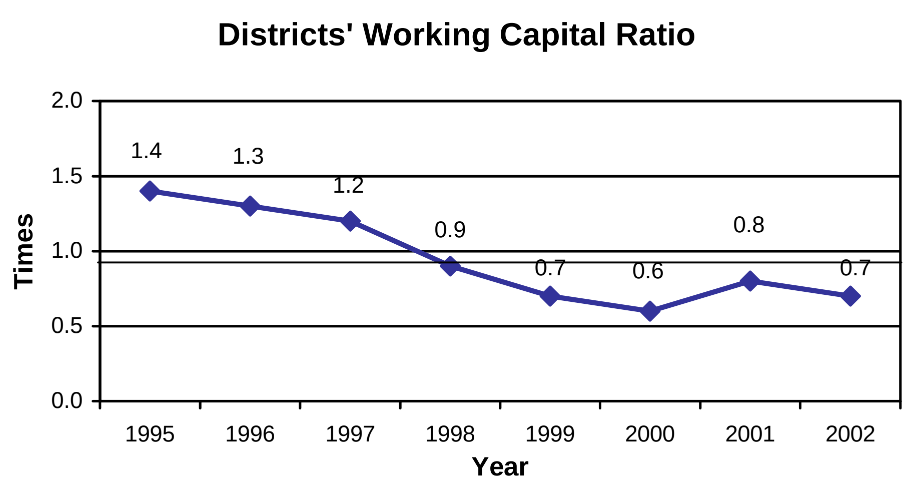
The fifth performance measure of sustainability analyzes the districts' working capital ratio.

Districts calculate the working capital ratio by dividing current assets by current liabilities. This ratio represents the districts' ability to pay employees and suppliers on time. Declines in current assets compared to current liabilities may impair a district's ability to maintain programs and services.

We have adjusted the districts' current assets for restricted funds (e.g., community trust funds) because they are not readily available for the districts' use.

The following graph shows a downward trend in the districts' working capital ratio from 1995 to 2002. The ratio reflects the number of times that current assets exceed current liabilities. At March 31, 1995, the districts had an average working capital ratio of 1.4 (i.e., districts had 1.4 times more current assets than current liabilities). The average working capital ratio fell to 0.7 in 2002. This means that current liabilities exceed current assets, which could impair the districts' ability to pay salaries and other costs on time. If this downward trend continues, more districts may experience problems in meeting their current financial obligations to suppliers or employees. They also may be unable to maintain existing programs and services.

Graph 6



Change in the districts' capital assets

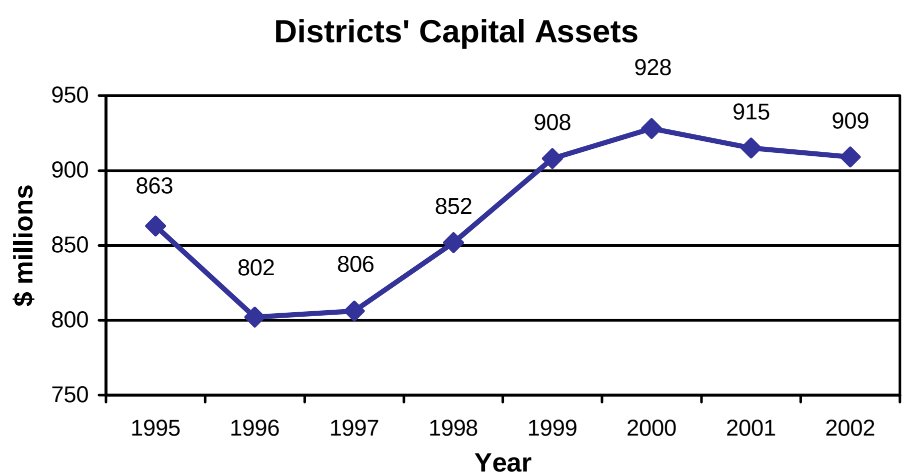
The final performance measure of sustainability analyzes changes in capital assets owned by districts.

Districts own most of the capital assets in the health system. Capital assets are resources such as property, buildings, and equipment that are used to deliver health services. Districts must properly maintain or replace their capital assets, or risk losing the assets' productive capacity. For example, if districts delay making necessary building repairs, renovations, or replacements, the ultimate costs may be unsustainable. Districts, like other organizations, must maintain and replace their capital assets. Otherwise, they face potential future costs to repair, renovate, or replace these assets, which may impair their ability to deliver needed services.

Governments and health experts are encouraging a shift of health services from institutions (e.g., hospitals, nursing homes) to services in the home and community. This shift is resulting in less need for new capital assets or even replacing some existing assets.

The following graph shows a trend in changes in capital assets owned by districts. From 1995 to 2002, capital assets have increased from $863 million to $909 million. This upward trend indicates continued sustainability of the districts' services.

Graph 7



Summary

We hope that the above analysis will promote discussion and debate on the state of our Health System's finances. We also hope that this analysis will encourage the Department to increase its reporting on the financial targets and measures it uses to assess its financial performance. Such reporting would help to explain the impact of health spending on the health of Saskatchewan people.

District Health Boards

5C

Glossary

Goal – general statements of desired ends to be achieved over an unspecified period.

Health need – the capacity to benefit from health care interventions whether to protect, improve, or restore health status.

Objective – measurable, time-defined ends or results to be achieved that lead to the achievement of each goal.

Outcome – consequence or end result of activities.

Performance measure – a factor chosen to monitor success in achieving objectives.

Performance target – targets are quantifiable estimates of results that are expected over a specific time period.

Restricted fund – funds that are subject to restrictions and are not available to a district for general use.

Introduction

The Government created 32 health districts under *The Health Districts Act* (Act). The Act requires the districts to deliver health services. Their responsibilities include:

- assessing the health needs of persons to whom they provide services;
- planning, managing, delivering, and integrating the provision of health services;
- promoting health and wellness; and
- reporting publicly on the health status of the districts' residents and on the effectiveness of the districts' programs.

Financial summary

We obtained the following financial information from the audited financial statements of the 32 districts. The combined revenue and expenses of the districts for the years ended March 31, 2002 and 2001 are:

	Operating Fund	Capital Fund	Community Trust Fund	Total 2002	Total 2001
			(in thousands of dollars)		
Revenue	$ 1,574,057	$ 64,036	$ 2,473	$ 1,640,566	$ 1,573,704
Expense	(1,590,060)	(100,598)	(744)	(1,691,402)	(1,574,222)
Surplus (Deficit)	(16,003)	(36,562)	1,729	(50,836)	(518)
Beg. fund balance	(58,592)	853,809	21,917	817,134	819,496
Transfers	(5,141)	6,319	(1,178)	---	---
Return of Equity	---	---	(1,520)	(1,520)	---
End fund balance	$ (79,736)	$ 823,566	$ 20,948	$ 764,778	$ 818,978

The total assets, liabilities, and fund balances of the 32 districts at March 31, 2002 and 2001 are:

	2002	2001
	(thousands of dollars)	
Assets	$ 1,119,668	$ 1,134,760
Liabilities	354,890	315,782
Fund balances:		
Operating funds	(79,736)	(56,979)
Capital funds	823,566	854,348
Restricted funds	20,948	21,609
Total liabilities and fund balances	$ 1,119,668	$ 1,134,760

Our audit conclusions and findings

For the year ended March 31, 2002, we audited 10 of the 32 districts. For nine of those districts, we carried out our audit responsibilities by working with the auditors hired by the districts. We audited the Regina District Health Board directly.

For the districts where we worked with other auditors, we followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at http://www.auditor.sk.ca/rrd.html). Together with the health districts' auditors, where applicable, we formed the opinions set out below.

Exhibit 1 lists the 10 districts we audited. Now that the 32 districts have amalgamated into 12 Regional Health Authorities, we will no longer be rotating our audits. Therefore, for the 2002-2003 year, we will be auditing all 12 Regional Health Authorities by working with the auditors hired by each Authority except for the Regina Qu'Appelle Regional Health Authority, which we will audit directly.

Exhibit 1:

Districts selected to audit for the year ended March 31, 2002

For the year ended March 31, 2002, we audited Regina and Saskatoon; all five of the mid-sized districts (Moose Jaw-Thunder Creek, Battlefords, Swift Current, East Central and Prince Albert); and three smaller districts (North Central, South Central, and Prairie West).

In our opinion, for the ten districts that we examined for the year ended March 31, 2002:

- **the districts' financial statements are reliable;**
- **the districts had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this chapter; and**
- **the districts complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.**

The districts' appointed auditors and our Office formed the opinions referred to above with one exception.

The reports of the appointed auditor of the Saskatoon District Health Board did not report the need for the District to report on its performance as noted on pages 103 to 106. In the appointed auditor's opinion, the district's internal and external reports were adequate. We disagree.

Where we are unable to rely on the work and reports of appointed auditors, *The Provincial Auditor Act* requires us to do additional audit work. For the Saskatoon District Health Board, our additional work consisted of reviewing the district's accountability reports and discussing areas of concern with management.

In this chapter, we organize our audit findings and recommendations into three groupings. These groupings reflect important responsibilities of the boards of directors in their role of overseeing their district's operations. These are:

- setting direction and monitoring performance;
- safeguarding assets; and
- complying with the law.

Setting direction and monitoring performance

The boards of directors of all the districts that we examined need to continue to improve how they set direction and monitor their districts' performance.

Financial management

One of the ten districts we examined, Regina District Health Board, needs to formally define and document its financial information needs. One of the ten districts we examined, Battlefords District Health Board, needs better interim financial information to monitor its performance.

Boards of directors are responsible to oversee the management of the districts' operations. To carry out responsibilities, boards require good financial information.

The Regina District Health Board has not formally defined and documented its financial information needs, nor has it formally delegated authority to senior management in written rules and procedures. The board of directors needs to do both to ensure it receives the information necessary to monitor the district's financial performance.

The interim financial reports the board of the Battlefords District Health Board received were not adequate for decision-making. The interim reports the board received contained detailed information on its revenues and expenses but the interim reports did not include:

- a statement of financial position (i.e., what the district owns and owes);
- a statement of cash flows; or
- financial information on the community trust funds that it manages or the operations of its affiliates

We reported similar matters in previous reports to the Legislative Assembly. In January 1999, the Standing Committee on Public Accounts (PAC) considered these matters and agreed with our recommendations for improvement.

The newly created Regional Health Authorities will need to ensure that they receive good financial information for decision-making. We plan to monitor the Regina Qu'Appelle and Prairie North Regional Health Authorities, where the Regina and Battlefords District Health Boards have been amalgamated, to ensure they have adequate polices and produce good interim financial information.

Health outcomes, measures, and targets

The boards of directors need to improve how they set direction and monitor districts' performance.

To set their direction and monitor performance, boards need to tell management what health outcomes the boards expect and the measures and targets needed to monitor progress in achieving the outcomes.

The boards of Moose Jaw-Thunder Creek, Prince Albert, Swift Current, and Prairie West District Health Boards need to approve their performance measures. They need to tell their management what health outcomes they expect and what measures are required to monitor progress in achieving those outcomes.

In addition, the boards of all districts that we examined need to approve their performance targets. Targets are quantified statements of results that a district expects to achieve in a future period. Targets indicate the desired level of performance including the quantity, quality, and timing.

To establish the desired performance targets and measures, the districts need to continue to work on assessing the health needs and health status of residents to establish expected long-term health outcomes. Once the boards have set desired performance targets and measures, they will have to consider the effect this will have on the types, costs, and volumes of district services.

The boards then need to receive reports showing the districts' progress toward achieving the boards' targets. We recognize measuring and reporting on the health status of residents and the effectiveness of services will take time and resources.

We reported this matter in previous reports to the Legislative Assembly. In January 1999, PAC considered this matter and agreed with our recommendations for improvement.

Regional Health Authorities will need to continue the districts' work in setting direction and monitoring performance. Good internal reports help improve governance and provide a sound basis for reporting on the effectiveness of health services to the Minister and the public. We plan to monitor the Regional Health Authorities and assess if the boards of directors are adequately setting direction and monitoring their authority's performance.

Safeguarding assets

Adequate written and approved rules and procedures needed

Two of the districts that we examined, East Central and Regina District Health Boards, need better written rules and procedures to help safeguard their assets.

Boards of directors must ensure management has established adequate written rules and procedures to safeguard and control the districts' assets. The boards should then approve the rules and procedures. Once adequate rules and procedures are in place, management must ensure that they are followed to safeguard and control the districts' assets.

Written rules and procedures provide for the orderly and efficient conduct of business. They also reinforce the boards' delegation of authority and the responsibilities of all employees. Adequate written rules and procedures help reduce the risk of errors, fraud, breakdowns in control, and unauthorized transactions.

We reported a similar matter in previous reports to the Legislative Assembly. In January 1999, PAC agreed with our recommendation for improvement.

We plan to monitor the Regina Qu'Appelle and Sunrise Regional Health Authorities, where the Regina and East Central District Health Boards have been amalgamated, to ensure they have adequate written rules and procedures to safeguard and control the authorities' assets to ensure the:

- capital asset records are prepared (Regina Qu'Appelle);
- control of bank accounts (Sunrise); and
- proper development of information systems (Sunrise).

Complying with the law

The boards of directors need to ensure that management has established adequate rules and procedures to comply with the law including key agreements.

We note three areas where districts did not have adequate rules and procedures to ensure compliance with the law.

Performance reporting requirements

All ten districts that we examined need to continue to improve the information they submit to the Minister and the public to fully comply with *The Health Districts Act* (Act).

Section 35(2) of the Act requires districts to report annually to the Minister on the health status of their residents and the effectiveness of their programs.

The Department of Health and the districts prepared a framework to guide districts in measuring and reporting the health status of residents and the effectiveness of district programs. In addition, the Department issued guidelines for the preparation of health district annual reports, three-year strategic plans for districts, and performance measures for mothers and infants. These guidelines should help the districts to meet the reporting requirements of section 35(2) of the Act.

Although the information that each district provides to the Minister and the public has improved, the information does not fully meet the requirements of the Act. To report fully on the health status of residents and the effectiveness of programs, each district needs to set performance targets and measures. Once they set performance targets and measures, each district will need to design information and reporting systems that enable comparisons of actual results to targets.

As we noted earlier, all of the districts examined also need to improve their internal reports. These internal reports would provide a sound basis for the preparation of the external reports to the Minister and the public required by the Act.

We reported this matter in previous reports to the Legislative Assembly. In January 1999, PAC agreed with our recommendation for improvement.

As we noted earlier, *The Regional Health Services Act* replaced *The Health Districts Act* on August 1, 2002. This new Act also sets out new reporting requirements to the Minister. Consequently, we do not make a recommendation for compliance with *The Health Districts Act*. The improved internal reports described earlier will provide a sound basis for the preparation of the external reports to the Minister required by the new Act.

Public reporting requirements

One of the ten districts we examined, Regina District Health Board, did not hold public meetings during the year ended March 31, 2002. This District did not present the information required by *The Health Districts Act* or its own by-laws.

Section 37 of *The Health Districts Act* requires each district to hold two public meetings a year. At one of these meetings, a district must present an operation and expenditure plan for the next fiscal year and a report on the health status of the residents of the district and the effectiveness of the board's programs. In addition, the Regina District Health Board's by-law 7.06 requires its Board to present the audited financial statements at one of the public meetings.

As we noted earlier, *The Regional Health Services Act* replaced *The Health Districts Act* on August 1, 2002. This new Act also sets out new requirements. Consequently, we do not make a recommendation for compliance with *The Health Districts Act*. The public reporting requirements described earlier will form part of the public meetings required by the new Act.

Approval of the Minister required for renovations to existing hospitals

One of the ten districts we examined, Prairie West District Health Board, did not obtain the Minister's approval for the renovations to the Kindersley Integrated Health Facility costing $164,000.

The Hospital Standards Regulations requires the district to obtain the Minister's approval before constructing or renovating any facility where the cost of the construction or renovation exceeds $50,000.

The Prairie West District Health Board submitted plans to the Minister in advance for the renovations to the Kindersley Integrated Health Facility. The Minister's approval for renovations was not received prior to starting the work.

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Capital construction accountability—follow-up

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Introduction to the recommendation

This section describes the action taken by the Department of Health up to October 2002 on our recommendation related to accountability for capital construction projects in health districts (see our 2000 Fall Report – Volume 3, Chapter 2B).

During 1999-2000, we audited the Department's processes to establish appropriate accountability relationships with health districts for capital construction projects. We found that the Department had adequate processes to establish accountability relationships with districts for capital construction projects, except for its plan to manage risks. We reported our findings, conclusions, and recommendation in our 2000 Fall Report – Volume 3.

We recommended that the Department establish and communicate a plan to manage risks for capital construction projects. The Department's plan to manage these risks should clarify the accountability of the Department and health districts to identify, assess, and monitor risks. The plan should also clarify accountability to take action to reduce risks.

On June 6, 2001, the Standing Committee on Public Accounts (PAC) agreed with this recommendation. The Department told PAC that it had begun to strengthen its processes to manage the risks related to capital construction projects.

Action by the Department

To realize the benefits of this recommendation, we expected that the Department would establish processes to monitor risks. We expected the Department to require progress reports and insist that changes to the original construction plans be approved by the Department (e.g., when changes were made to objectives, total costs, or time frames). We expected that the Department would ask districts to assess the outcome of completed construction projects to ensure that each project achieved the planned benefits.

The Department hired an engineering technologist to help revise its processes for capital construction and risk management. In addition, the Department set up a committee of health district representatives and

Department employees to consider its processes to manage capital construction. The committee revised the Department's guide for the capital construction process, and called it "The 18 Step Capital Process." This committee continues to revise policies and guidelines and develop forms to help implement the new process.

The Department's proposed accountability system for capital construction presumes that the Department will have available sufficient expertise and resources. The Department needs expert employees to:

- monitor the construction reports that districts submit, and take action when analysis of the reports identifies a potential risk; and
- observe progress through visits to major construction sites.

During 2002, the Department had one employee with expertise in this area to monitor about $24 million of capital construction. The Department is actively recruiting other experts.

The Department continues to take action to strengthen risk management for capital construction. The Department plans the following activities:

- summarize the policy changes required by the proposed revision of the "The 18 Step Capital Process";
- discuss the policy changes with the senior officials and experts in the Department's program branches prior to approval of the policy changes and the revised process; and
- consult with industry experts (e.g., design consultants) and health districts to get further input about whether the proposed process is practical.

We encourage the Department to finish revising its capital construction processes with careful attention to risk management. We also encourage the Department to use its new processes to guide major construction projects.

Board information for financial decisions—follow-up

5E

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Introduction to recommendations

This section describes the action taken by the Department of Health and by health districts on recommendations that arose out of an audit our Office carried out in 1999-2000.

Our audit assessed whether boards of health districts received adequate information to make financial decisions. In Chapter 2D of our 2000 Fall Report – Volume 3, we described our findings. We found that three of the six health districts that we audited received adequate information. In light of our conclusion, we made the recommendations listed below.

1. Boards of health districts should improve the relevance of financial and program information they receive by requesting:

    - timely reports. Boards should request that they receive reports as soon as possible after the end of the reporting period, preferably within 30 days, and at least one week before meetings;

    - reports that describe progress towards goals and objectives. Boards should continue their efforts to define performance measures and should focus their efforts on defining a limited set of key measures that monitor progress toward these boards' most critical objectives; and

    - reports that help them look ahead. Reports should include projections or forecasts (e.g., of results, service delivery volumes, staffing levels).

2. Boards of health districts should improve the reliability of financial and program information they receive by ensuring that:

    - reports include information about the financial position and program effectiveness of significant affiliates;

    - reports disclose significant assumptions used in preparing projections or forecasts; and

- districts standardize the way they collect and safeguard information.

On May 30, 2001, the Standing Committee on Public Accounts agreed with these recommendations.

In 2002, the Government replaced Saskatchewan's 32 health districts with 12 regional health authorities. As with the health districts, the regional health authorities deliver health services. They are responsible for planned spending of almost $1.5 billion annually.

The boards of these regional health authorities require adequate information to make financial decisions. As leaders of new organizations, the boards of regional health authorities have an opportunity to set clear expectations for the information that they require. Our recommendations will help boards to request useful information for more informed financial decisions.

Action on the recommendations

Accountability for board information is shared. Board members, managers, and the Department all have a role in ensuring that boards have adequate information to make financial decisions.

Our Office shared the results and recommendations of our audit with all of the accountable groups. We provided the audit report and recommendations to the chair of every health district board. We met with several health district boards to discuss the recommendations directly with them. We also met, as a group, with the chief financial officers of the health districts to describe the audit, our results, and our recommendations.

Action by districts

We asked all health districts if they acted on our recommendations to obtain better information for making financial decisions. Health districts responsible for about 60 per cent of total health district spending responded to our request and provided examples.[1]

[1] As a proportion of spending for the year ending March 31, 2002

The responding districts told us that they acted on the recommendations. The districts reported that they had taken positive steps to improve the information given to their boards for making financial decisions as follows.

Relevance of information

- Improved timeliness of information given to the board.

- Provided more information to help the board look ahead including forecasts and reports of emerging issues.

- Provided better information to help boards monitor district performance (both financial and operational):
  - increased use of performance measures;
  - explained differences between what was planned and what was achieved; and
  - integrated operational information (e.g., service volumes) with financial information.

Reliability of information

- Increased completeness by including information regarding district affiliates (e.g., in quarterly reports).

- Disclosed assumptions underlying information.

- Improved systems to collect more standardized information (e.g., regular reports of key financial and service statistics).

Action by the Department

Some of the information that boards require is influenced by the Department of Health. The Department told us that it plans to bring all chief financial officers of the new regional health authorities together regularly. The Department advises that it plans to provide guidance about information for financial decisions at those meetings.

The Department had planned to complete and release new written guidance on board information. It has not yet done so. We urge the

Department to provide written guidance during 2003 on the information that boards of regional health authorities should receive.

Next steps

Health spending accounts for a large proportion of public spending. The regional health authorities play a key role in spending public resources to deliver health services. Their boards need good quality information on which to base their decisions. Our Office plans to continue to monitor the information received by the boards of regional health authorities.

Liquor and Gaming Authority

6

Executive summary

Liquor and Gaming Authority is responsible to supervise Saskatchewan Indian Gaming Authority's (SIGA) operations. SIGA operates four casinos for Liquor and Gaming. We report that Liquor and Gaming's progress towards proper supervision of SIGA's operations is slow. We also report that SIGA's progress towards proper management of public money is slow.

In our previous reports, we made several recommendations for both Liquor and Gaming and SIGA to improve their management of public money. They both accepted our recommendations. Almost two years have gone by since we made those recommendations, but they have not implemented most of them. We expected that both Liquor and Gaming and SIGA would have prepared a detailed plan, setting out who would do what and by when, to implement the recommendations. Liquor and Gaming's plan is not adequate, and SIGA does not have a plan.

SIGA spends approximately $28 million on staff pay and benefits and $8 million on marketing. These are SIGA's two biggest expenses. We recommended that SIGA establish processes to control these expenses including a process for evaluating the results of its marketing activities. SIGA has not yet done so.

SIGA's practices continue to allow the improper use of public money. SIGA continues to make payments that are not for operating casinos. Also, SIGA continues to make payments without due care.

Liquor and Gaming, SIGA, and their senior management will need sustained commitment to bring about the necessary improvements to SIGA's management of public money. Failing to do so may result in Liquor and Gaming continuing to pay expenses that may not be reasonable to operate the slot machines at SIGA's casinos. This would result in reduced profits available for Government programs such as health, education, and the First Nations Fund.

Liquor and Gaming Authority

6A

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Introduction

The Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) operates under *The Alcohol and Gaming Regulation Act*. The mandate of Liquor and Gaming is to support, develop, and regulate the Saskatchewan beverage liquor and gaming industries. The mandate also requires Liquor and Gaming to maximize public benefit through high quality services and products, encourage responsible consumption of beverage alcohol, and encourage responsible participation in gaming.

Liquor and Gaming operates retail liquor stores and video lottery terminals. It also owns and operates the slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos. Liquor and Gaming supervises SIGA and SIGA's revenues and expenses are Liquor and Gaming revenues and expenses. SIGA's slot machine revenues and expenses are included in Liquor and Gaming's financial statements.

In 2001-02, Liquor and Gaming had revenues of $645 million, expenses of $327 million, and net income of $318 million. At March 31, 2002, Liquor and Gaming held net assets of $4 million. *Liquor and Gaming's Annual Report 2001-02* includes its financial statements.

In this chapter, we describe our understanding of the key risks that Liquor and Gaming faces, our audit conclusions, and findings.

Key risks

To carry out our work, we must understand the key risks facing an agency. We think sharing our understanding with legislators and the public will help them better understand and assess the agency's performance.

Under *The Alcohol and Gaming Regulation Act* (Act), Liquor and Gaming regulates establishments selling liquor (e.g., taverns) and all gaming activities in the Province. Liquor and Gaming also operates retail liquor stores. To help assess Liquor and Gaming's performance, it is important for legislators and the public to understand Liquor and Gaming's vision, mission, and how it manages the key risks it faces.

Liquor and Gaming has documented its vision, mission, guiding principles, strategic direction, and objectives in its strategic plan. Its annual report includes some of this information. However, Liquor and Gaming does not make public its strategic plan and how it manages its key risks. We encourage Liquor and Gaming to provide its strategic plan and management of its key risks in its annual report.

In 1998, we identified the key risks that Liquor and Gaming faced and reported those risks in our 1998 Fall Report – Volume 2. During the year, we updated our understanding of the key risks that Liquor and Gaming faces. We reviewed relevant literature on the regulation of the liquor and gaming industry and various documents prepared by Liquor and Gaming. We discussed our understanding with management and confirmed that the key risks that Liquor and Gaming faces today are not different from the key risks we identified in 1998.

We assessed the adequacy of Liquor and Gaming's rules and procedures to regulate and monitor the operations of SIGA's casinos. We reported our findings and recommendations in our previous reports to the Assembly. Liquor and Gaming has not implemented all our previous recommendations. Accordingly, we continue to report that Liquor and Gaming needs to improve its supervision of SIGA's operations.

We have not assessed the adequacy of the processes that Liquor and Gaming uses to address its other key risks.

The following are the key risks that Liquor and Gaming must manage well to be successful. Liquor and Gaming must:

- develop and maintain fair, clear, and contemporary policies and operating agreements and ensure compliance with policies and operating agreements;
- ensure the integrity of the liquor and gaming industries;
- ensure a balance between equitable licensing and revenue opportunities for charities and businesses; and
- promote the responsible use of liquor and gaming products while optimizing revenue from those products.

The following briefly explains each of the above risks and sets out the systems and practices necessary to manage those risks.

Fair, clear, and contemporary policies and operating agreements

Liquor and Gaming is responsible for regulating all casinos, establishments selling liquor and gaming activities of charitable organizations.

Liquor and Gaming must develop and maintain policies and operating agreements that are fair to all parties involved in the liquor and gaming industries. To be fair, those policies and operating agreements must be clear and contemporary. Effective operation of these industries requires that all parties comply with established policies and operating agreements.

Management told us Liquor and Gaming regularly reviews laws that affect policies relating to regulation and operation of liquor and gaming industries to ensure those laws are fair. When it considers necessary, management told us, Liquor and Gaming recommends to the Government changes to those laws. Also, management told us, to ensure operators understand the laws, Liquor and Gaming educates permittees, licencees, and stakeholder groups about compliance requirements and available assistance. Furthermore, Liquor and Gaming does inspections/audits and conducts investigations to ensure the liquor and gaming establishment operators comply with the laws, the terms of the permits/licences, and operating agreements.

Integrity of the liquor and gaming industries

The continuous growth of the gaming industry is a concern for anti-gambling interest groups in the Province. The steady consumption of beverage alcohol in Saskatchewan also continues the pressure to promote responsible use of beverage alcohol. Liquor and Gaming, as regulator of the liquor and gaming industries, has a responsibility to maintain and ensure the integrity (legality, honesty, fairness, consistency, and transparency) of these industries.

Citizens expect their Government to ensure the integrity of the liquor and gaming industries. The introduction of various partners in the liquor and gaming industries makes it challenging for Liquor and Gaming to ensure the integrity of these industries.

To ensure the integrity of liquor and gaming operations in the Province, Liquor and Gaming, in consultation with the industries, must establish standards of integrity for those industries. Those standards must be fair and clear. Liquor and Gaming should also ensure that all those operating in the gaming and liquor industries comply with those standards.

Liquor and Gaming currently licenses both liquor and gaming activities in the Province. Those licenses stipulate conditions for liquor and gaming operations. Also, Liquor and Gaming requires that all gaming employees and gaming suppliers in the Province meet Liquor and Gaming's integrity standards. Liquor and Gaming conducts inspections/audits of liquor establishments to ensure the operators comply with conditions of their licenses. Management told us that Liquor and Gaming staff routinely observe gaming operations at various establishments.

Balancing equitable licensing and revenue opportunities for charities and businesses

Liquor and Gaming is responsible for licensing, registering, monitoring, and enforcing compliance with the policies by all parties involved in the liquor and gaming industries. Those industries contribute toward general economic development and to charities. Many charities rely heavily on the income generated from gaming activities (e.g., bingos, raffles).

To assist charities, Liquor and Gaming must ensure the licensing of charities is effective, efficient, accountable and fair. Because of the recent expansion of the gaming industry, charities face challenges to protect and stabilize their revenue sources. Liquor and Gaming must balance equitable licensing for charities and businesses with fair opportunities to raise revenue.

Management told us Liquor and Gaming inquires about the financial needs of the charities before providing them licences for gaming activities. Also, Liquor and Gaming has processes to ensure the charities use income from gaming activities for charitable purposes only.

Responsible use of liquor and gaming products while optimizing revenues

The recent growth in the liquor and gaming industries has provided the Government with increased revenues to maintain its current programs. This growth has also continued pressure on the Government to promote responsible use of liquor and gaming products.

The net income for the Government from liquor and gaming products amounted to $318 million in 2001-2002. This is a significant amount of revenue to the Government. The Government faces a challenge to balance its need to optimize this source of revenue with the responsible use of these products.

To achieve this balance, the Government, through Liquor and Gaming and other health and welfare agencies, must gather information about the negative social impacts of liquor and gaming products. Liquor and Gaming can then establish, and co-ordinate with other health and welfare agencies, promotion of responsible use of these products. Liquor and Gaming together with other agencies should then explain to the public how they are reducing the negative social impact of liquor and gaming. Also, Liquor and Gaming must work with the liquor and gaming industries to ensure pricing and marketing policies meet its revenue expectations within the boundaries set for social responsibility.

Management told us Liquor and Gaming has policies to set prices for liquor products to meet revenue expectations within the boundaries set for social responsibility (e.g., set profits margins, no sale to minors or those who appear intoxicated). Management also told us that Liquor and Gaming has a process to manage and regulate its gaming operations within the limits set by the Government (i.e., maximum province wide 4,000 VLTs and 1,240 slot machines). Also, Liquor and Gaming sponsors, in partnership with hospitality, liquor and gaming operators, and other government agencies, the Designated Driver Program and the Fetal Alcohol Syndrome Program.

Our audit conclusions and findings

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

- **Liquor and Gaming's financial statements are reliable;**
- **Liquor and Gaming had adequate rules and procedures to safeguard and control its assets, except for the matters described in this chapter; and**
- **Liquor and Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matters described in this chapter.**

Proper management of public money under SIGA's control needed

Liquor and Gaming needs to continue to strengthen its rules and procedures to ensure proper management of public money under SIGA's control.

To implement the 1995 Framework Agreement[1] and because *The Criminal Code of Canada* gives only provinces the authority to conduct and manage electronic gaming devices, Liquor and Gaming and SIGA signed the Casino Operating Agreement[1]. The Casino Operating Agreement permits SIGA to manage slot machines at SIGA's four casinos.

Under the Casino Operating Agreement, the revenue and expenses from the slot machines belong to Liquor and Gaming. The Agreement also addresses the management of table games. SIGA has the right to deduct reasonable table games losses and ancillary operation losses from the slot machine net profits.

Also, under the Agreement, Liquor and Gaming has the right to determine what expenses SIGA can reasonably incur and deduct from slot machine revenues, to decide SIGA's operating policies, and to approve SIGA's

[1] See Chapter 6B on page 139.

financial plans. These authorities are necessary because the expenses SIGA incurs to operate slot machines are Liquor and Gaming's expenses.

In our 2000 Fall Report – Volume 2, we make recommendations for Liquor and Gaming to strengthen its management of public money under SIGA's control. In our 2001 Fall Report – Volume 2, we say Liquor and Gaming needs to do more work to fully implement the recommendations we made in our previous reports.

Liquor and Gaming, and SIGA accepted all of our past recommendations. While Liquor and Gaming, and SIGA implemented some of our past recommendations, their progress towards implementing all our recommendations has slowed.

Liquor and Gaming, as the owner and operator of the slot machines in SIGA casinos, needs to ensure that all costs SIGA charges Liquor and Gaming to operate slot machines are for that purpose and are reasonable. Liquor and Gaming has not done enough to know this.

We describe below areas where Liquor and Gaming needs to do more work to ensure proper management of public money under SIGA's control.

SIGA's business and financial plan

Liquor and Gaming approved SIGA's financial plan (budget) without receiving a complete business plan.

In our past reports, we said Liquor and Gaming must ensure SIGA prepares appropriate business and financial plans. SIGA did not prepare a business plan for 2001 or 2002. Management of SIGA could not do so because SIGA's Board of Directors has not prepared and communicated strategic directions for SIGA.

Liquor and Gaming received SIGA's budget for 2001 and 2002 and approved those budgets. However, without a business plan, Liquor and Gaming does not know what SIGA wants to achieve, how it will do that, and what resources SIGA needs to achieve its objectives. Also, because SIGA's Board has not prepared and communicated its long-term strategic directions, Liquor and Gaming does not know whether SIGA's strategic direction is consistent with Liquor and Gaming's strategic direction.

1. We continue to recommend that Liquor and Gaming ensures:

- **SIGA's Board prepares and communicates its long-term strategic direction to management; and**
- **SIGA prepares and submits for approval a complete business and financial plan setting out performance targets**

Policies and procedures

In our past reports, we said that Liquor and Gaming must ensure that SIGA has adequate policies and procedures for managing public money. It has been now two years since we made this recommendation. However, Liquor and Gaming has not ensured that SIGA has appropriate policies and procedures in all areas[2].

Annually, SIGA spends approximately $28 million and $8 million on employees' pay and benefits, and for marketing and promotion activities (including sponsorship) respectively. These are SIGA's two biggest expenses. In our past reports, we recommended that Liquor and Gaming ensure SIGA establishes adequate processes for controlling these expenses including rules and procedures for evaluating the results of SIGA's activities. Liquor and Gaming continues to approve SIGA's budgets without ensuring that SIGA has established such processes.

Also, Liquor and Gaming has not ensured that SIGA has established:

- accounting policies to ensure all transactions are properly supported and recorded; and
- adequate segregation of duties for its employees.

We had expected that Liquor and Gaming would have set out a plan to improve its supervisory practices over SIGA's spending. Such a plan would have included who would do what, and by when, to implement all of our recommendations. Liquor and Gaming does not have an adequate

[2] See exhibit 1 in Chapter 6B on page 165.

plan to ensure timely implementation of all of our recommendations. As a result, most of our recommendations are still not implemented[3]. Accordingly, Liquor and Gaming's progress towards implementing our recommendations has slowed.

For example, we recommended Liquor and Gaming should do more frequent audits of SIGA's spending. We also expected Liquor and Gaming to report and follow up its audit findings with SIGA and recover unreasonable expenses, if any.

During the year, Liquor and Gaming did more work to audit SIGA's spending. Liquor and Gaming prepared written reports to communicate its audit findings to SIGA. However, Liquor and Gaming did not adequately follow up the matters reported to SIGA to ensure SIGA changed its spending practices. For example, Liquor and Gaming audited SIGA's payments for promotions and sponsorships and identified transactions that were questionable or not properly supported. Liquor and Gaming, however, did not adequately follow up its audit findings with SIGA to ensure SIGA changed its' spending practices.

Liquor and Gaming may have paid SIGA for expenses that are not reasonable for operating slot machines at SIGA casinos because of its slow progress in improving its supervising practices.

2. We continue to recommend that Liquor and Gaming implement all our past recommendations listed in Exhibit 1.

Exhibit 1

In our 2000 Fall Report – Volume 2, we recommended Liquor and Gaming:

3. Ensure SIGA implements the recommendations we make in our 2000 Fall Report – Volume 2, and ensure it has necessary resources to frequently audit SIGA;
4. Frequently audit SIGA's operations to ensure:
- SIGA complies with the Framework and Casino Operating Agreements; and
- SIGA incurs and deducts only reasonable expenses from public money.

In our 1999 Spring Report, we recommended Liquor and Gaming:

5. Prepares a formal training plan for its employees and should co-ordinate work among its branches;

[3] See exhibit 1 in Chapter 6B on page 165.

> 6. **Ensures inspections/audits are completed as planned or document why the plan was changed;**
> 7. **Documents procedures for reporting and following up its audit/inspection findings with SIGA;**
> 8. **Receive and formally approves SIGA's casino operating policies and procedures on a timely basis; and**
> 9. **Receive and approve SIGA's budget on a timely basis and should have procedures for approving changes to the budget.**

Improper use of public money

Liquor and Gaming authorized SIGA to pay $400,000 to the Federation of Saskatchewan Indian Nations (FSIN) and $150,000 to Saskatchewan Indian Gaming Licensing (SIGL). The 1995 Casino Operating Agreement does not allow SIGA to make these payments.

The Government of Saskatchewan and the FSIN signed a new Framework Agreement on June 11, 2002. The FSIN negotiated on behalf of its member First Nations, and Liquor and Gaming negotiated the new agreement on behalf of the Government. SIGA is not a direct party to this agreement.

SIGA, with the approval of Liquor and Gaming, paid the FSIN $400,000 to cover the FSIN negotiation costs for a new agreement. The 1995 Casino Operating Agreement restricts SIGA's activities to operate casinos. The Agreement allows SIGA to incur and deduct only costs of operating the casinos. Payment to the FSIN is not a necessary cost to operate casinos.

As stated earlier, the revenues and expenses of SIGA are the revenues and expenses of Liquor and Gaming. Accordingly, the payment to FSIN resulted in the Government paying costs for both Liquor and Gaming's negotiation team and the team that negotiated for the FSIN.

Also, Liquor and Gaming authorized SIGA to pay SIGL $150,000. Under the 1995 Framework Agreement, the Government agreed to authorize SIGL to issue licenses to charitable and religious organizations located on reserves to conduct charitable gaming on reserves. The Government, however, has not yet authorized SIGL to issue any licenses. Management told us, that the Government has not done so because SIGL is still learning how to regulate and monitor gaming on reserves. The payment to SIGL is not a necessary cost to operate casinos.

10. **We recommend that Liquor and Gaming authorize SIGA to spend money on expenses only necessary to operate casinos.**

Timely calculation and payment of Goods and Services Tax needed

Liquor and Gaming needs to ensure that it calculates and pays Goods and Services Tax (GST) for its slot machine operations on a timely basis.

As stated earlier, Liquor and Gaming owns all the slot machines in SIGA's casinos and all VLTs. Liquor and Gaming is a lottery corporation under section 188 of the *Excise Tax Act* (Canada). The law requires lottery corporations to calculate and pay GST according to a set formula, instead of calculating and paying GST on slot machine and VLT revenues. The formula requires Liquor and Gaming to pay 14% on the purchase of taxable goods and services related to slot machine operations and 7% on VLT site contractor commissions.

Although Liquor and Gaming regularly calculated and paid GST on VLT site contractors' commissions, it did not calculate and pay GST on taxable purchases for slot machine operations for the last two years. For the annual financial statements, Liquor and Gaming estimated it owed $3.6 million for outstanding GST relating to slot machines.

11. **We recommend that Liquor and Gaming establish rules and procedures to ensure timely calculation and payment of GST on its slot machine operations.**

Management told us, Liquor and Gaming has now paid the outstanding GST relating to slot machines.

Better monitoring of gaming operators needed

Liquor and Gaming needs to ensure that all gaming establishments (gaming operators) use only registered gaming suppliers.

The Alcohol and Gaming Regulation Act (Act) requires Liquor and Gaming to license all gaming operators in the Province. Liquor and Gaming issues licences to gaming operators. The terms and conditions of those licences require the operators to ensure all their employees and those who provide gaming services hold a certificate of registration (licence) from Liquor and Gaming. Liquor and Gaming also licenses employees who work in gaming establishments and suppliers of gaming services.

As a regulator, Liquor and Gaming, must ensure all gaming operators comply with the law. Liquor and Gaming requires its inspectors to seek lists of gaming suppliers that gaming operators use. Inspectors are then required to ensure those gaming suppliers are licensed. However, Liquor and Gaming also needs to ensure that the lists of gaming suppliers its' inspectors receive from gaming operators is complete and accurate. Without this information Liquor and Gaming does not know if all gaming operators complied with the Act.

12. We recommend that Liquor and Gaming strengthen its rules and procedures to ensure gaming operators use only registered gaming suppliers.

Electronic gaming devices need proper testing

Liquor and Gaming must establish standards for testing electronic gaming devices (slot machines and video lottery terminals) before making them available for public use.

The laws set out minimum payout percentages for electronic gaming devices. To ensure those devices pay out in accordance with the law, regulators require gaming operators to have the devices tested by an independent gaming laboratory. In addition, independent testing of those devices provides assurance about the technical integrity of the software, e.g., random number generation. Liquor and Gaming, as a gaming regulator, requires gaming operators to have the electronic gaming devices tested by an independent gaming laboratory before authorizing those devices for public use. As the owner of the slot machines at SIGA's casinos and all VLTs in the Province, Liquor and Gaming asks an independent gaming laboratory to test those devices before making them available to the public.

Because Liquor and Gaming has not established standards for the testing of electronic gaming devices, the independent gaming laboratory uses standards established by other regulators. Gaming rules in Saskatchewan are different from other jurisdictions. When independent laboratories use other regulators' standards to test the devices for use in Saskatchewan, there is risk that those devices may not comply with gaming rules in Saskatchewan.

Also, Liquor and Gaming does not have a formal agreement with the testing laboratory setting out what it should test and what assurance it needs to provide to Liquor and Gaming. When expectations are not clearly documented and communicated there is risk of confusion between parties resulting in malfunctioning electronic gaming devices for public use. Malfunctioning gaming devices could result in the loss of public confidence and loss of revenues.

13. We recommend that Liquor and Gaming:

- ♦ **establish standards for independent testing laboratories to use when testing slot machines and VLTs; and**
- ♦ **ensure that the laboratories use those standards to test Liquor and Gaming's slot machines and VLTs.**

Management told us Liquor and Gaming has begun to develop standards for testing slot machines and VLTs.

Better monitoring of table games needed

Liquor and Gaming needs better rules and procedures to monitor table games at casinos.

Liquor and Gaming approves the rules of all table games played in Saskatchewan casinos. Table game rules include a planned house advantage. The planned house advantage is the percentage of the player's bet that the casino should retain over time if the game is played according to the approved rules.

Liquor and Gaming does not have rules and procedures to regularly monitor gaming operators' house advantage for table games. Management told us that if gaming operators play the table games according to the approved rules, they would achieve the approved house advantage. Management also told us that Liquor and Gaming is satisfied that table games in the casinos are played according to the approved rules because its staff observe live table games at casinos to ensure gaming staff comply with approved rules. However, Liquor and Gaming should also require gaming operators to calculate and monitor the actual house advantage for some table games. Such monitoring provides added assurance that all table games are played according to the approved rules.

Alternatively, Liquor and Gaming could establish a range of expected “hold” for approved table games. Expected “hold” represents the revenue from the table games that an operator can expect to achieve. Most gaming operators calculate and monitor the “hold” for table games. Liquor and Gaming could then monitor gaming operators’ actual “hold” for table games against the approved range for those table games. This will help ensure that the table games are played fairly and generate revenue according to expectations.

14. We recommend that Liquor and Gaming establish rules and procedures to periodically monitor the actual house advantage for table games.

Complete contingency plan needed

Liquor and Gaming needs to prepare a complete contingency plan for its computer systems and test the plan to ensure it works.

Liquor and Gaming is dependent upon its computer systems. To provide continuous services, Liquor and Gaming must ensure its systems and data are available when needed.

A contingency plan is an important part of an organization’s business interruption plans. Business interruption plans reduce the risks resulting from business disruptions due to unforeseen incidents including systems failure. Liquor and Gaming needs a written and tested contingency plan to ensure the recovery of systems and data in case Liquor and Gaming’s electronic systems fail, or if key service providers’ systems fail.

We reported this matter in our previous reports. The Standing Committee on Public Accounts (PAC) considered this matter in January 1999 and concurred with our recommendation.

Liquor and Gaming has established some procedures to recover data in case of systems failure. However, Liquor and Gaming does not yet have a complete and tested contingency plan. Once the plan is completed, the Board of Directors should approve it.

We continue to recommend that Liquor and Gaming complete a written contingency plan and tests that plan to ensure it works.

Written rules and procedures needed for computer systems operations

Liquor and Gaming needs written rules and procedures for its computer systems operations including security so that the staff understand what they must do.

We reported this matter in our previous reports. PAC considered this matter in January 1999 and concurred with our recommendation.

Liquor and Gaming has drafted some rules and procedures for computer systems operations. However, Liquor and Gaming has not approved or implemented these rules and procedures.

We continue to recommend that Liquor and Gaming document its rules and procedures for its computer systems operations and ensure that staff understand those rules and procedures.

Annual report needs improvement

Liquor and Gaming needs to further improve its annual report.

To assess the performance of a public sector agency, legislators and the public need to know how the agency is managing its key risks. They also need information about the agency's goals and objectives and how successful the agency has been in achieving those goals and objectives. Good annual reports provide this information. Annual reports should describe what the public agency is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. In addition, the annual report should be timely, relevant, and understandable.

Liquor and Gaming's 2002 annual report provides limited information on its performance. Future reports should include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of Liquor and Gaming's plans and the actual results would help readers assess Liquor and Gaming's performance in achieving its goals. Liquor and Gaming's 2002 annual report provides little information about its future directions or the outlook for the liquor and gaming industries generally. Future reports should include a discussion of Liquor and Gaming's future directions. Such a discussion would help readers to understand how Liquor and Gaming intends to achieve its goals.

Future reports should also describe the key risks Liquor and Gaming faces and how it manages those risks. This information will help readers better understand and assess Liquor and Gaming's performance.

We also reported this matter in our previous reports.

15. We continue to recommend that Liquor and Gaming improve its annual report.

Saskatchewan Indian Gaming Authority Inc. 6B

6B Saskatchewan Indian Gaming Authority Inc.

Introduction

The Saskatchewan Indian Gaming Authority Inc. (SIGA) is a non-profit corporation established under *The Non-Profit Corporations Act, 1995*. The members of SIGA are the Federation of Saskatchewan Indian Nations (FSIN) and its Tribal Councils. SIGA is licensed by the Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) to conduct and manage table games. The Casino Operating Agreement requires SIGA to use the net proceeds from the operations of licensed table games for First Nations' charitable or religious purposes.

Liquor and Gaming owns and manages the slot machines located in the SIGA casinos, as required by section 207 of *The Criminal Code of Canada*. The revenue from the slot machines belongs to Liquor and Gaming and is, therefore, public money. The Casino Operating Agreement allows SIGA to deduct reasonable costs of operating the casinos, as determined by Liquor and Gaming, from the slot machine revenues. SIGA is required to remit the net profits from the slot machines to Liquor and Gaming.

Background

On February 10, 1995, the Government of Saskatchewan and the FSIN made an agreement called the 1995 Framework Agreement that permitted the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. The 1995 Framework Agreement expired on December 31, 2000. On January 1, 2001, the Government of Saskatchewan extended the 1995 Framework Agreement to July 31, 2001 with a provision for a further 90-day period or periods if SIGA continues to meet the terms and conditions Liquor and Gaming attached to SIGA's casino licenses on November 15, 2000. On June 11, 2002, the Government of Saskatchewan and the FSIN signed a new Framework Agreement (2002 Framework Agreement) effective from June 11, 2002 to June 11, 2027.

To implement the 1995 Framework Agreement, Liquor and Gaming and SIGA signed the Casino Operating Agreement on November 24, 1995 (1995 Casino Operating Agreement). The 1995 Casino Operating Agreement expired on March 31, 2001. In March 2001, Liquor and Gaming extended the 1995 Casino Operating Agreement to July 31, 2001 with a provision for a further 90-day period or periods if SIGA continues to meet the terms and conditions Liquor and Gaming attached to SIGA's casino licenses on November 15, 2000. On June 11, 2002, Liquor and Gaming and SIGA signed a new Casino Operating Agreement (2002 Casino Operating Agreement) effective from June 11, 2002 to June 11, 2027.

To ensure the reasonability of costs for operating the slot machines for Liquor and Gaming, the 1995 Casino Operating Agreement requires Liquor and Gaming to approve SIGA's operating budgets.

The net profits from the slot machine operations in the SIGA casinos flow to the Government's General Revenue Fund (GRF) through Liquor and Gaming. The Government distributes a portion of those profits to the First Nations Fund and Community Development Corporations as required by *The Saskatchewan Gaming Corporation Act* and the amended 1995 Framework Agreement.

SIGA reported the following net profits (losses) for each segment of its operations over the last five years.

Table 1

Segment	**2002**	**2001**	**2000**	**1999**	**1998**
			(in thousands)		
Table operations	$ (620)	$ (638)	$ (491)	$ (927)	$ (451)
Slot operations	26,855	21,290	15,705	19,216	21,023
Ancillary operations	(1,400)	(2,009)	(1,830)	(1,270)	(238)
Total	$ 24,835	$ 18,643	$ 13,384	$ 17,019	$ 20,334

In this chapter, we report the following:

- In Part 1, we describe our audit findings and conclusions for the year ended March 31, 2002;
- In Part 2, we describe the key risks that SIGA must manage well to be successful; and

- In Part 3, we describe the agreed upon criteria that we will use to examine SIGA's systems and practices to build human resource capacity.

Part 1

Our audit conclusions and findings

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

- **SIGA's consolidated financial statements are reliable;**
- **SIGA did not have adequate rules and procedures to safeguard and control its assets because of the matters reported in this chapter; and**
- **SIGA complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter.**

Progress to implement our recommendations has slowed

Since we last reported, SIGA's progress towards implementing our recommendations has slowed. SIGA does not yet have a detailed plan setting out who would do what and by when to implement our past recommendations.

New policies and procedures often necessitate revisions to human resource practices (e.g., staff training, job classification). SIGA must determine that it has the appropriate and relevant human resources and work towards achieving that capacity. SIGA must also have a staff-training plan so that staff know how to carry out their duties and responsibilities.

In our 2000 and 2001 Fall Report – Volume 2, we make recommendations for SIGA to improve its management of public money. Both SIGA and Liquor and Gaming accepted our recommendations.

In our 2000 Fall Report – Volume 2, we reported that to enable senior management to prepare annual business and financial plans, SIGA should prepare a strategic plan including its goals and objectives. A strategic plan tells management what the Board of Directors expects the agency to achieve. Management can then prepare a business plan and a financial plan (budget) for the Board's approval setting out the resources that management needs to accomplish the Board's goals and objectives. Almost two years have now gone by since our recommendation, but SIGA still does not have a strategic plan that management can use to prepare its business plan and financial plan.

In its 2002 annual report, SIGA describes its preliminary strategic plan including its mission, vision, and guiding principles. However, the annual report does not include SIGA's goals and objectives or how it plans to achieve those goals and objectives.

Annually, SIGA spends approximately $28 million and $8 million on employees pay and benefits, and marketing and promotion (including sponsorship) activities respectively. These are SIGA's biggest expenses. In our previous reports, we had recommended that SIGA establish adequate processes for these activities including a process for evaluating the results of those activities. SIGA has not yet fully established such processes.

Also, SIGA has not yet established:

- accounting policies to ensure all transactions are properly supported and recorded; and
- adequate segregation of duties for its employees.

To bring about the required changes to SIGA's practices will require sustained commitment by SIGA's Board and senior management.

Exhibit 1 on page 165 summarizes our past recommendations and whether SIGA has implemented those recommendations.

Our detailed audit findings

The rest of this section describes in detail the areas where SIGA needs to improve its systems and practices.

Improper use of public money

During the year, SIGA made two unauthorized payments totalling $550,000.

SIGA paid $400,000 to the FSIN and $150,000 to Saskatchewan Indian Gaming Licensing (SIGL). Although Liquor and Gaming specifically approved these payments, we think the 1995 Casino Operating Agreement does not authorize those payments.

As stated earlier, the Government and the FSIN signed a new gaming framework agreement. SIGA is not a direct party to this agreement. SIGA paid $400,000 to the FSIN for negotiating the new framework agreement with the Government.

The 1995 Casino Operating Agreement allows SIGA to deduct reasonable costs of operating the casinos. The payment to the FSIN for its negotiation costs for a new gaming framework agreement is not a necessary cost to operate SIGA's casinos. Usually, when parties negotiate agreements, each party is responsible for its own negotiation costs.

Management also told us SIGA paid $150,000 to SIGL because Liquor and Gaming authorized SIGA to do so. Under the 1995 Framework Agreement, the Government had agreed to authorize SIGL to issue licenses to charitable and religious organizations located on reserves to conduct charitable lotteries on reserves in Saskatchewan. The Government, however, has not yet authorized SIGL to issue any licences. Liquor and Gaming told us the Government has not authorized SIGL to issue licenses because SIGL is still learning how to regulate and monitor gaming on reserves. The payment to SIGL is not a necessary cost to operate SIGA's casinos.

As a result, SIGA has reduced profits available for distribution to the First Nations Fund, community development corporations, and the General Revenue Fund of the Government.

1. **We recommend that SIGA incur only costs necessary to operate its casinos under the Casino Operating Agreement.**

Strategic, and business and financial plans needed

SIGA's Board has not approved a strategic plan setting out SIGA's goals, objectives, and priorities. Because SIGA's Board does not have an approved strategic plan, management cannot prepare an adequate business and financial plan.

To ensure SIGA's resources are used effectively, the Board should develop a strategic plan for SIGA setting out goals, objectives, and priorities. The Board needs to decide on the strategic direction early in the year to ensure that management has enough time to prepare the business and financial plan before the beginning of the fiscal year. Management can then prepare a financial plan (budget) setting out the resources it needs to accomplish the goals and objectives set by the Board. Also, the business plan should provide performance targets (desired results) so that SIGA can monitor its progress. All levels of staff should be consulted in setting performance targets to encourage the full commitment of all those responsible for achieving the targets.

SIGA's Board met in September and December 2001 to discuss and develop SIGA's strategic plan including its goals and objectives. However, we have not seen a final strategic plan that sets out SIGA's goals, objectives, and priorities.

Although the Board has not approved a strategic plan and management has not prepared a business plan, the Board approved a budget for SIGA for the year ending March 31, 2002. The 2002 budget, however, is not adequate because it is not linked to SIGA's specific goals and objectives. Therefore, the Board does not know if the resources it approved are appropriate to achieve the goals and objectives of SIGA.

We reported these matters in our 2000 Fall Report – Volume 2 and 2001 Fall Report – Volume 2.

2. We continue to recommend that SIGA's Board document and communicate to its senior management the goals and objectives of SIGA.

3. We continue to recommend that SIGA prepare a complete business and financial plan for its operations.

Management told us that the Board continues to work on the strategic plan with the intention of completing the plan by March 31, 2003.

Board needs to set its financial and operational reporting requirements

The Board has not set out the financial and operational information it needs and when it needs that information to oversee SIGA's operations.

We expect the Board to determine and communicate to management the operational and financial information the Board needs to oversee the affairs of SIGA. Management should regularly provide that information to the Board on a timely basis together with explanations of significant differences between the planned and actual results.

Management provides monthly, quarterly, and annual financial reports to the Board and to Liquor and Gaming. The periodic financial reports, however, are inadequate because they do not show:

- what SIGA owns and what it owes to others;
- consolidated operations for all of its casinos; and
- SIGA's cash flows.

Also, the information package provided to the Board does not include sufficient performance information. To assess SIGA's performance, the Board needs regular operational reports from management. Operational reports would show what the Board wanted SIGA to achieve and how SIGA is progressing towards those expectations. However, management cannot do that because the Board has not set out SIGA's goals and objectives.

In addition, the financial information package provided to the Board is not timely. For example, SIGA completed its financial reports for September 2001 on December 13, 2001.

We reported this matter in our 2000 Fall Report – Volume 2 and 2001 Fall Report – Volume 2.

4. We continue to recommend that SIGA's Board define its operational and financial information needs and

communicate those needs to management for regular reporting.

Complete human resource policies needed

SIGA needs to complete its human resource policies. Pay and benefits for employees is SIGA's biggest expense. We had expected by now it would have completed those policies.

SIGA has established a job classification plan and wage grid for employees who work at casinos. However, SIGA has not yet established a job classification plan and wage grid for head office employees and senior management. Also, SIGA has not yet established development (training) guidelines for all of its employees. Further, SIGA has not yet established performance evaluation guidelines for all of its employees.

SIGA has established job descriptions for all of its employees. Because the Board has not yet established goals and objectives for SIGA, we do not know how SIGA plans to align employees' duties and responsibilities to SIGA's goals and objectives.

SIGA has not yet established policies and procedures to determine who should receive benefits (use of vehicles, cellular phones, computers, etc.). Currently, SIGA provides leased vehicles to the Chief Executive Officer, a Vice-President, and four general managers of the casinos. Other employees and management are allowed to use fleet vehicles for business purposes when needed. SIGA has established policies to monitor the use of fleet vehicles by employees. SIGA monitors the use of vehicles for those staff who pay income tax.

Also, SIGA continues to provide cellular phones to certain employees and senior management with a maximum usage of $350 per month for employees and $500 per month for managers and above. SIGA pays the monthly bills for those phones and does not ask individuals to provide details of personal use of those phones if the monthly bill is within the limits. All public sector employees are required to submit details of monthly charges showing personal and business usage of cellular phones.

We also reported this matter in our 2000 Fall Report – Volume 2 and 2001 Fall Report – Volume 2.

In addition, as noted elsewhere in this chapter, SIGA paid approximately $3,100 for golf club memberships for some of its staff at one of its casinos.

5. We continue to recommend that SIGA establish complete written policies for management and staff pay, benefits, development, and performance evaluation.

Policies and procedures needed for marketing and promotion activities

SIGA needs policies and procedures for ensuring marketing and promotion spending is effective.

Marketing and promotion (marketing) is SIGA's second largest expense. SIGA spent approximately $6.2 million (2001 - $9.2 million) for marketing, excluding sponsorship, of its casinos. We had expected that by now SIGA would have developed these policies.

SIGA needs to establish and communicate to its staff policies and procedures for marketing and promotion activities including a clear definition of marketing activities. Those policies and procedures should include a process for approving such activities. Such a process would require staff to prepare a business case for all significant marketing proposals. SIGA could then monitor whether its marketing activities contributed to its revenue generating activities and learn lessons for future marketing projects.

Marketing activities include cash incentives to patrons, complimentary meals, live entertainment at casinos, and general marketing and promotions. SIGA does not regularly analyze its marketing spending. SIGA does not compare its actual marketing spending to the planned spending for each activity. Without this information, management and the Board cannot assess whether its marketing activities are producing the desired impact on its revenue generating activities.

As stated earlier, SIGA spent approximately $6.2 million for marketing activities (including advertising). Because SIGA has not established a clear definition of marketing, there is a risk that management may commit SIGA to contractual obligations without knowing what impact, if any, those commitments may have on SIGA's future revenues. Also, when marketing activities are not clearly defined there is a risk that staff may record those activities incorrectly. For example, staff approved a payment of $20,000 to an electrical contractor. The support document shows that the payment was for the installation of a lighting system for a baseball field. The staff originally recorded this payment as marketing expense and later transferred this to sponsorship expense. The approved sponsorship policy does not allow such payments. Also, under the approved policy the Sponsorship Advisory Committee should have authorized this payment. The Committee did not do so. We note SIGA paid $20,000 to the same contractor for the same work in the previous year.

We also reported this matter in our 2000 Fall Report – Volume 2 and 2001 Fall Report – Volume 2.

6. We continue to recommend that SIGA establish policies and procedures for its marketing and promotion activities.

Staff need to comply with established rules and procedures

SIGA needs to ensure that employees follow the established rules and procedures when doing their assigned duties. We noted that the employees did not always comply with the approved sponsorship policy and the approved delegation of authority policy.

Lack of compliance with approved sponsorship policy

SIGA established a sponsorship policy effective April 1, 2001. Liquor and Gaming approved that policy. The policy sets out processes for responding to requests for sponsorship from SIGA. To implement the approved policy, the Board established a Sponsorship Advisory Committee to approve and monitor sponsorship spending. The Board also set out guidelines for the Committee. Those guidelines describe who may be eligible for financial support, SIGA's priorities, and directions for ensuring that the recipients of financial support spend the money for the approved purposes.

The Board established appropriate policies for sponsorship spending that provided directions for ensuring the recipient of financial support spend the money for the approved purposes. However, management did not monitor its staff's compliance with the Board policies.

Unfortunately, staff did not always comply with the Board's policies. Below are examples of sponsorship spending that did not comply with the approved policy.

Payments to inappropriate teams and individuals

The approved policy allows SIGA to sponsor those teams and individuals that have earned the right to represent their province and/or country at national or international events. During the year, SIGA paid approximately $50,000 to sponsor certain individuals and teams.

SIGA did not provide evidence that the teams and individuals had earned the right to represent Saskatchewan in national or international events. Also, SIGA did not check to ensure that the teams and individuals spent the money for approved purposes.

Golf club membership for staff

During the year, SIGA spent approximately $3,100 for golf club memberships for certain staff and recorded this spending as sponsorship expenses. The approved sponsorship policy does not permit those payments.

Accommodation costs and golf course fees

SIGA paid accommodation costs and golf course fees of approximately $1,400 for some individuals and recorded these payments as sponsorship expenses. The approved sponsorship policy does not permit these payments. Management told us that staff incorrectly recorded these payments as sponsorship expense and that staff should have recorded these payments as promotion expense. Management could not tell us why these payments should have been recorded as promotion expense.

Supporting specific event

The approved sponsorship policy requires the Sponsorship Advisory Committee to approve all requests of $5,000 or more. During the year, SIGA paid $5,000 to sponsor a specific event. Under the approved policy, the Advisory Committee should have reviewed and approved this sponsorship request. The Committee did not approve this payment.

Supporting an individual

The Advisory Committee approved a sponsorship commitment to an individual for $15,000. The commitment included paying $1,000 a month to the individual plus paying the cost of leasing a truck for that individual. Staff incorrectly recorded these payments as marketing expense. Also, the total actual cost of supporting this individual was approximately $10,000 more than the amounts approved by the Advisory Committee.

7. We recommend that SIGA ensure that the staff comply with the sponsorship policy

Lack of compliance with delegation of authority policy

SIGA needs to ensure that all employees comply with the approved delegation of authority policy.

In March 2001, the Board of Directors established an appropriate delegation of authority policy for SIGA. The policy sets out the levels of approval needed for cheque signing, business travel, the purchase or lease of land and buildings, and services contracts. However, staff did not consistently follow the established policy. For example, we found three service contracts that were approved by staff who did not have that authority. Failure to follow the delegation of authority policy could result in SIGA paying for goods and services that it did not need or receive, or paying too much for the goods and services.

Also, we noted that authorized staff did not always approve the purchase orders and the invoices supporting the payments. In addition, we noted the purchase orders did not always provide sufficient details and, in some cases, the staff prepared the purchase orders after the receipt of invoices. As a result, SIGA's books and records may have improper transactions.

8. We recommend that SIGA establish rules and procedures to ensure all staff comply with its delegation of authority policy.

Accounting policies and procedures needed

SIGA needs to establish written guidance to accounting staff about the nature of support and authorization required before making payments and for making changes to financial records. SIGA has not yet established written rules and procedures to ensure that all payments are properly supported and recorded. As a result, more than 50% of the transactions that we tested during the audit had insufficient supporting documents.

SIGA needs to ensure that its Chief Financial Officer (CFO) provides written guidance to accounting staff responsible to authorize payments about the nature of support before making payments. The CFO needs to tell the staff they need proper authorization such as purchase orders, evidence showing the ordered goods and services have been received, and invoices for goods and services authorized and received. Also, staff need to record the payments in the proper account in SIGA's books. In addition, staff need to know what support they need for making changes to financial records and procedures for reconciling bank accounts and other accounts. Any changes to financial records and all reconciliations should then be independently reviewed and approved.

Every year, SIGA spends significant amounts for marketing its operations. Marketing activities include cash incentives for patrons to visit SIGA casinos, complimentary meals, live entertainment in the casinos, and general marketing and promotion activities. SIGA records all these costs together in one account. SIGA does not budget these amounts separately and management does not regularly analyze the amounts spent for marketing. We could not analyze this spending because of the way SIGA records these expenses. Without detailed analysis of SIGA's marketing spending, management and the Board cannot assess what impact its marketing activities had on its revenue generating activities. Nor can they detect improper transactions. As a result, SIGA's books and records may have improper transactions.

Also, SIGA has not yet established rules and procedures for its ancillary operations. SIGA's ancillary operations consist of restaurants, bars, and gift shops located at some of its casinos. For the year ended March 31, 2002, SIGA had ancillary revenue of $4.4 million and incurred expenses of $5.8 million. We had expected that by now SIGA would have policies and procedures for controlling cash, inventory (including purchases), pricing, and regular reporting.

When policies and procedures are not documented, the risk of loss and errors increases. Also, written rules and procedures help ensure that staff know their duties and where to get help when needed.

We also reported this matter in our 2000 Fall Report – Volume 2 and our 2001 Fall Report – Volume 2.

9. We continue to recommend that SIGA establish accounting policies and procedures to ensure that its books and records reflect its business operations and there is support for all transactions.

Segregation of duties needed

SIGA needs to ensure an adequate segregation of duties for its employees to ensure that all withdrawals from its bank accounts are for goods and services received by SIGA. Segregation of duties is not adequate when an employee or group of employees can conceal the improper use of money without ready detection.

We noted one employee continues to have access to blank cheques. The same employee is authorized to transfer money from SIGA's bank accounts and can make changes to financial records without independent review and approval. SIGA should segregate those duties to reduce the risk of improper use of money.

We also noted that other employees who had authority to order goods and services could also receive the goods and services ordered and approve the invoices for payment.

We also reported this matter in our 2001 Fall Report – Volume 2.

10. We continue to recommend that SIGA properly segregate the duties of its employees.

Table games need better monitoring

SIGA needs to strengthen its rules and procedures to ensure that table games are played in accordance with the rules approved by Liquor and Gaming and to ensure all table games' revenues are received.

Under law, Liquor and Gaming approves the rules of table games including betting limits, house advantage, and use of technology in the game. House advantage is the theoretical percentage of players' bets that SIGA should retain over time. The house advantage varies depending on the rules of a particular game and the technology used (e.g. automatic card shufflers).

Table games and surveillance staff regularly monitor how the games are played to ensure they are played in accordance with the rules. However, SIGA does not regularly monitor the actual house advantage. SIGA should also randomly monitor the actual house advantage for some table games in addition to ensuring that gaming staff follow approved game rules. Such monitoring will provide added assurance that gaming staff are following the approved table game rules. If the actual house advantage on the table games played is the same as approved by Liquor and Gaming, it shows that the table games were generally played according to the approved rules. Alternatively, SIGA should discuss with Liquor and Gaming other means to monitor the approved table games.

When gaming operators do not regularly monitor house advantage on table games, they establish and communicate to gaming staff the expected "hold" for their table games. Expected "hold" represents the revenue from table games that operators can expect to achieve. Gaming operators then monitor the actual hold on table games to the expected hold to ensure table games are generating revenues as expected.

SIGA has not established and communicated to the gaming staff the ranges of expected hold for each type of table game. Gaming staff record the actual hold at the table games hourly and monitor trends. Because SIGA has not established and communicated ranges of expected hold for each table game, gaming staff do not know what hold is expected and may not take any action if the hold is within their perceived ranges.

SIGA should establish and communicate expected hold for each type of table game to its casino managers. SIGA should then require its casinos to provide regular periodic reports showing expected and actual table games revenue. Those reports should also explain significant differences between the expected and actual table games revenue and actions taken when differences were significant.

11. We recommend that SIGA:

- **periodically monitor the actual house advantage for table games to ensure games are being played in accordance with approved rules.**

- **establish appropriate rules and procedures to monitor expected and actual revenue of table games and communicate these to casino staff.**

Compliance with terms of gaming licences needed

SIGA is licensed by Liquor and Gaming to conduct and manage table games. Liquor and Gaming owns and manages the slot machines located in the SIGA casinos, as required by section 207 of *The Criminal Code of Canada*. SIGA operates the slot machines on behalf of Liquor and Gaming.

Liquor and Gaming has issued terms and conditions related to SIGA's table game licences and SIGA's slot machine operations. Those terms and conditions do not allow SIGA to install cash advance terminals (debit card machines) inside its casinos that issue credit card advances.

We observed that at one casino, SIGA has a debit card machine that accepts credit cards for cash advances. We found instances where patrons obtained credit card advances from this machine. Accordingly, SIGA did not comply with the terms and conditions of its gaming licences.

12. We recommend that SIGA comply with the terms and conditions of its gaming licence.

Management told us that SIGA removed the debit card machine in July 2002.

Better public reporting needed

Liquor and Gaming provided SIGA guidelines for an annual report policy. In March 2001, the Board approved an annual report policy for SIGA. The approved policy requires SIGA to complete an annual report beginning with the fiscal year ending March 31, 2001 on a timely basis, but no later than September 30, 2001.

The policy requires that the annual report should include:

- a statement of Mission, Vision, Values and Objectives;
- a listing of all Board members and senior management;
- a description of governance practices;
- a description of operations including an organization chart;
- a description of key performance indicators;
- a description of accomplishments including a comparison of planned to actual results;
- an identification of key risks and a description of systems and practices to manage these risks; and
- a complete set of audited financial statements

SIGA did not provide an annual report for the year ended March 31, 2001 to Liquor and Gaming until December 2001. Liquor and Gaming gave SIGA's 2001 annual report to the Legislative Assembly on January 24, 2002.

SIGA's 2001 annual report did not contain a statement of mission, vision, values, and objectives, an organization chart, a description of key performance indicators, comparison of planned and actual results, a description of key risks, and systems and practices in place to manage these risks.

Accordingly, SIGA did not comply with its annual report policy.

The policy also requires SIGA to provide to Liquor and Gaming a list of persons (e.g., employees, suppliers) who have received money from SIGA and the amount each person received. SIGA provided such a list for 2001 to Liquor and Gaming. Liquor and Gaming told us it did not make this list public because of advice it received from the Department of Justice.

13. We recommend that SIGA comply with its annual report policy.

Matters related to the former CEO

In our 2000 Fall Report – Volume 2, we stated that the former Chief Executive Officer (CEO) improperly used corporate credit and debit cards for personal expenses and received unauthorized salary advances. We also stated the CEO had not returned certain corporate assets, totalling $53,750, when his employment ended. We stated that at June 30, 2000, the CEO owed SIGA $811,906 for these items. This amount did not include outstanding travel advances, and the costs of questionable trips that were not for SIGA's purposes. We said SIGA should determine the amount and recover the money.

SIGA determined that the CEO owes an additional amount of $26,696 for outstanding travel advances and questionable trips. In June 2001, SIGA recovered the 2000 Cadillac Escalade from the CEO (estimated value of $43,000) and cancelled the contracts with the service providers for cellular telephones and the security system.

So far, SIGA has not recovered the remaining amounts from the CEO. SIGA told us that recovery of any amount is considered doubtful.

Part 2

Key Risks

To carry out our work, we must understand the key areas of risk facing an organization. To identify the key risks facing SIGA, we reviewed SIGA's documents and reports as well as documents and reports from other gaming operators and legislators in Canada. We discussed our understanding of those risks with management and confirmed we have identified the right risks. Sharing our understanding with legislators and the public will help them better understand and assess the organization's performance.

To be successful, SIGA needs to:

- continue to generate profits in an increasingly competitive marketplace;
- ensure gaming is provided in a socially responsible manner;
- ensure the integrity of gaming operations; and
- ensure adequate human resource capacity to manage operations.

We have not assessed the adequacy of SIGA's systems and practices to address its key risks. However, we plan to examine SIGA's practices to ensure adequate human resource capacity to manage its operations. In Part 3, we set out the criteria to do this work. We will report our findings, conclusions, and recommendations, if any, in a future Report.

The following briefly explains each of the key risks and sets out systems and practices necessary to manage those risks.

Generating profits in an increasingly competitive market place

The gaming industry in Canada continues to grow and is becoming more competitive. Recent expansion of First Nation casinos in Manitoba and Alberta could significantly impact gaming revenues available for the First Nations and for the Government of Saskatchewan. To continue to generate profits, both SIGA and the Government of Saskatchewan must position themselves as providers of quality gaming entertainment. They must ensure they have adequate marketing and promotion plans and regularly assess those plans to ensure they are producing the desired results. Also, to maintain public confidence, they must ensure they provide quality gaming products and services to gaming the public.

SIGA generates significant profits each year for sharing between the Government and the First Nations. SIGA also generates economic benefits for First Nation communities by providing employment opportunities for local people. Changes in SIGA's profits would impact a significant number of people. Accordingly, SIGA must ensure its current profitability continues and improves.

To do so, SIGA must develop an appropriate marketing and promotion plan to help retain current customers and attract new customers. The plan should set out specific goals, objectives, and performance measures for marketing and promotional activities. SIGA must then regularly assess how well it achieved those objectives and adjust the plan when necessary.

Also, to maintain public confidence, SIGA must ensure it provides quality gaming products and services to the gaming public. SIGA must ensure it has gaming products that the gaming public likes. It must also ensure its employees have adequate gaming industry and customer service training. In addition, SIGA must regularly monitor its financial performance to assess how well it meets its financial performance targets.

Social responsibility

SIGA must balance its need to generate revenue for positive social impact with its responsibility to encourage responsible gaming.

Problem gambling is generally considered to have a major negative impact on society. Problem gambling refers to all gambling behaviour which adversely affects a person's physical or psychological health or impacts on significant areas of a person's life such as employment, family relationships, or contributes to involvement in illegal activities to finance a person's gambling activities. While studies have shown that problem gambling affects a small percentage of the population, for those people, and their families, it is a serious problem.

SIGA must work closely with health and community service organizations to share information about the negative impacts of problem gambling and the extent of problem gambling in the province. SIGA can then develop, adjust, and co-ordinate its own programs to promote responsible gaming.

Also, SIGA must develop a comprehensive training program for its employees to help them understand their role in combating problem gambling by identifying guests who may be problem gamblers. Gaming employees must know how and where to refer problem gamblers for help. Increased awareness about problem gamblers is crucial to promoting responsible gaming and maintaining a positive public image of SIGA.

SIGA must also ensure that underage gamblers are prohibited from entering their casinos.

Integrity of gaming operations

As an operator of casinos, SIGA has a responsibility to ensure the integrity (fairness and legality) of its gaming operations. To maximize revenue, SIGA must maintain the confidence of the gaming public (patrons) in the integrity of its gaming operations so that patrons continue to visit the casino.

To ensure the integrity of its gaming operations, SIGA must ensure all games, gaming equipment, supplies and staff meet regulatory operating standards. Also, SIGA must ensure games are played fairly and consistently in accordance with approved rules.

In addition, SIGA must ensure it provides a safe and secure environment for its employees and patrons. Employees perform better when they feel safe and patrons are more likely to revisit the casinos when they feel safe and secure.

Human resource capacity

Gaming operators need a capable workforce to manage their operations and to achieve their goals and objectives. Attracting and maintaining quality employees in the gaming industry is becoming increasingly difficult. Recent expansion of the gaming industry has resulted in high demand for experienced gaming employees.

SIGA must ensure it has a capable workforce to manage its operations. To do so, SIGA must ensure that it has adequate strategies to recruit and retain appropriate employees. SIGA is committed to providing employment opportunities for First Nations people. To ensure it can accomplish that objective, SIGA must ensure it has a long-term strategy to recruit and retain First Nations people.

Also, SIGA must work with the First Nation communities and educational institutions to set goals relating to First Nations employment and to promote SIGA's employment opportunities. SIGA's human resource plan must also address any special training needs of these employees.

Part 3

Building human resource capacity

In Part 2 of this chapter, we identify risks that SIGA must manage well to be successful. One of those risks relates to ensuring SIGA has adequate human resource capacity to manage its operations.

As an employer in the hospitality industry, SIGA needs a capable workforce to manage its operations. It must meet client service expectations, maintain security, and avoid costly mistakes. Good human resource systems and practices help organizations to build a capable workforce so that they can manage their operations to achieve their goals and objectives.

In our 2000 Fall Report – Volume 2, and 2001 Fall Report – Volume 2, we note that SIGA did not have adequate human resource systems and practices. Accordingly, we decided to examine, in depth, SIGA's human resource systems and practices. We decided to do our work in two phases. In the first phase, we articulated the objective of our work and completed our research and discussion with management to determine the criteria we will use to assess SIGA's practices. In the second phase, we will do our assessment and report our findings, conclusions, and recommendations, if any.

The first phase of our work is now complete. In the rest of this section, we describe our audit objective and the criteria we will use to evaluate SIGA's human resource systems and practices.

We plan to report the results of the audit in our 2003 Spring Report.

Audit objective and approach

The objective of our audit is to assess whether SIGA has adequate human resource systems to build human resource capacity. We will examine the processes used by SIGA for the period November 1, 2001 to October 31, 2002.

In completing our work, we do not intend to examine SIGA's performance management systems, organizational design and job evaluation systems.

Agreed-upon criteria

Auditors use criteria to evaluate the matters they examine. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of systems and practices. We developed criteria based upon our review of relevant literature and best practices. We discussed the criteria with senior officials at SIGA. They agreed that our criteria are reasonable and attainable.

The following are the agreed upon criteria:

SIGA's human resource systems and practices should:

Align its human resource plan with the strategic plan and business and financial plan

a) Define human resource needs
b) Assess availability of human resources
c) Select strategies to address needs within limitations of corporate plans
d) Provide management with adequate information
e) Evaluate and modify plan as required

Obtain a competent workforce (e.g., recruit, promote, transfer)

a) Evaluate vacancy requests using human resource plan
b) Attract candidates with required competencies
c) Select appropriate candidate
d) Employ appropriate candidate
e) Provide management with adequate information
f) Evaluate and modify the staffing process

Provide relevant learning opportunities

a) Develop learning plans (e.g., individual, group, and organization-wide)
b) Implement learning plans
c) Provide management with adequate information
d) Evaluate and modify the learning process

Retain a competent workforce

a) Identify risks to retention of a competent workforce

b) Manage risks to retention of human resource assets

c) Provide management with adequate information

d) Evaluate and modify the retention process

Exhibit 1

Recommendations	Year First Reported	Implemented	Partially Implemented	Not Implemented
1. SIGA should establish a proper code of conduct and that code of conduct should be appropriate for managing public money.	2000 Fall Report – Volume 2	✓		
2. SIGA should document and communicate to its senior management the goals and objectives of SIGA	2000 Fall Report – Volume 2			✓
3. SIGA's Board should establish an appropriate conflict-of-interest policy for Board members and management.	2000 Fall Report – Volume 2	✓		
4. SIGA's Board should ensure all Board members and senior management comply with the established conflict- of-interest policy.	2000 Fall Report – Volume 2	✓		
5. SIGA should prepare a complete business and financial plan for its operations.	2000 Fall Report – Volume 2			✓
6. SIGA's Board should define its management reporting needs and communicate those needs to management for regular reporting.	2000 Fall Report – Volume 2			✓
7. SIGA should establish an independent internal audit function that should report directly to the Board.	2000 Fall Report – Volume 2	✓		
8. SIGA should report publicly through FSIN and Liquor and Gaming setting out SIGA's planned results and actual results.	2000 Fall Report – Volume 2			✓
9. SIGA should make public through FSIN and Liquor and Gaming a list of persons (e.g., employees, suppliers) who have received money from SIGA and the amount each person received.	2000 Fall Report – Volume 2		✓	

Recommendations	Year First Reported	Implemented	Partially Implemented	Not Implemented
10. SIGA's Board should establish appropriate delegation of authority rules for the management.	2000 Fall Report – Volume 2		✓	
11. SIGA should establish written policies for management and staff pay, benefits, professional development, and performance evaluation.	2000 Fall Report – Volume 2		✓	
12. SIGA should establish an appropriate travel policy for Board members and executive management expenses including spousal travel, business expenses, and travel advances.	2000 Fall Report – Volume 2	✓		
13. SIGA should establish adequate policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions.	2000 Fall Report – Volume 2			✓
14. SIGA should establish appropriate written policies and procedures for tendering and awarding contracts.	2000 Fall Report – Volume 2	✓		
15. SIGA should establish appropriate policies and procedures for its marketing, promotion, and sponsorship activities. Those policies and procedures should include a clear definition of marketing and promotion activities and an approval process for sponsoring community events.	2000 Fall Report – Volume 2		✓	
16. SIGA's Board should define its operational and financial information needs and communicate those needs to management for regular reporting.	2001 Fall Report – Volume 2			✓
17. SIGA should establish rules and procedures to ensure that only authorized persons can access its financial systems.	2001 Fall Report – Volume 2	✓		

Recommendations		Year First Reported	Implemented	Partially Implemented	Not Implemented
18.	SIGA should properly segregate the duties of its employees.	2001 Fall Report – Volume 2			✓
19.	SIGA should establish rules and procedures to ensure compliance with the Casino Operating Agreement.	2001 Fall Report – Volume 2			✓

Justice

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7

Justice

Executive summary

In this chapter, we set out the results of our examinations of the Department of Justice and the agencies it manages.

We describe several areas where the Department should improve its processes for safeguarding public money. These processes include:

- systems to track, enforce, and collect fines;
- contingency plans for its information technology systems;
- internal audit;
- project management practices; and
- the need for complete financial statements for decision-making prepared in accordance with generally accepted accounting principles.

The Office of the Public Trustee has implemented all of our recommendations to establish rules and procedures to safeguard and control its clients' assets. As well, the Trustee has now prepared its March 31, 2000, March 31, 2001, and March 31, 2002 financial statements.

We also recommend that the Department strengthen its annual report by providing information on the risks that it faces, its performance, and what it owns and controls.

We also examined whether the Department's capital asset plan adequately included the key elements of capital asset plans in the public sector. We concluded that the Department's plan was adequate, except: 1) the plan did not include an adequate summary of the assets the Department would require for future program delivery; and 2) the plan did not adequately set out the criteria the Department used to select its capital asset strategies.

Introduction

The mandate of the Department of Justice is to promote safe communities, social and economic order, and fair and just relations through the operation of an independent, impartial, and effective justice system that upholds the rule of law and defines the basic legal rights of citizens.

The Department administers justice services, police services, and adult corrections in the Province. The Department also administers registry systems for corporations and local registrars (including trust accounts)[1]; and regulates pensions, credit unions, and businesses.

The Government's summary financial statements show protection of persons and property expenditures of $299 million for the year ended March 31, 2002 (March 31, 2001 - $266 million). The following table shows the protection of persons and property expenditures of various government agencies.

The following is a list of major programs and spending:

	(in millions of dollars) 2002	2001
Department of Justice	$ 237	$ 232
Less expenditures by Justice for purposes other than the protection of persons and property	(15)	(14)
Information Services Corporation of Saskatchewan	54	25
Department of Labour	13	13
Other government agencies	10	10
	$ 299	$ 266

During the year, the Department received $237 million from the General Revenue Fund to deliver its programs. The Department also earned revenues of $67 million. Information about the Department's revenues and expenditures appears 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).

[1] Effective January 2001, the Information Services Corporation assumed the responsibility for administering the registry system for personal property.

The following is a list of major programs and spending as reported in the 2001-02 Public Accounts:

	Original Estimates	Actual
	(in millions of dollars)	
Community justice	$ 86	$ 86
Adult corrections	57	59
Court services	31	30
Registry and regulatory services	7	6
Accommodation and central services	14	14
Legal services	17	17
Administration	6	6
Boards and commissions	17	19
	$ 235	$ 237

The Department is also responsible for the operations of several trust and special purpose funds and Crown agencies with years ending March 31, 2002. These include:

Correctional Facilities Industries Revolving Fund
Judges of the Provincial Court Superannuation Plan
Law Reform Commission of Saskatchewan
Office of the Public Trustee
Office of the Rentalsman Trust Account
Provincial Mediation Board Trust Account
Queen's Printer Revolving Fund
Saskatchewan Legal Aid Commission
Saskatchewan Legal Aid Commission Pension Plan
Trust Accounts at Court House, Local Registrars, and Sheriff's Offices
Victims' Fund

Background

To assess the performance of the Department, it is important for legislators and the public to understand the Department's goals, objectives, and the risks that it faces.

The Department has identified five goals in its 2001-2002 annual report. These goals are to:

- ensure safe communities;
- resolve conflicts in constructive and timely ways and respond to the needs of vulnerable people;
- respond to the values and needs of Aboriginal people and enhance relations with them;
- uphold the rule of law; and
- provide a fair and effective marketplace.

Our audit conclusions and findings

We have completed our audits of the Department of Justice, the trust and special purpose funds, and the Crown agencies listed earlier. We report the results of the Department of Justice and its agencies below.

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

- **the financial statements for the funds and agencies are reliable;**

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

- **the Department and its funds and agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.**

We also report our assessment of the Department's annual report.

System to track, enforce, and collect fines needs improvement

The Department is responsible for administering the law. This responsibility includes issuing tickets (fines) for offences under various provincial and federal laws. The purpose of a deterrent such as a fine or jail is to discourage the public from violating the law. If deterrents are not enforced, they will not be effective. Without effective deterrents, our communities will be less safe.

The Department's systems for administering fines include policies and procedures for:

- controlling the distribution and receipt of tickets to and from law enforcement agencies;
- ensuring the accurate and complete recording, tracking, and enforcement of tickets;
- controlling the recording and receipt of fine payments; and
- collecting unpaid fines.

We noted weaknesses with respect to:

- the distribution and receipt of tickets;
- the recording, tracking, and enforcement of fines; and
- the collection of unpaid fines.

The distribution and receipt of tickets

The Department should follow its policies and procedures for the distribution of tickets and improve its controls for the receipt and recording of tickets issued by law enforcement agencies.

The Department is responsible for administering fines for numerous offences under various provincial and federal laws. It also provides certain administrative services to other levels of government in support of their fine systems.

To administer fines, the Department needs policies and procedures for tracking the distribution and issuance of tickets. For example, it needs to know which tickets it has distributed to law enforcement agencies, the tickets that the law enforcement agencies issue to offenders, and the tickets that the law enforcement agencies have not issued. It needs this information to determine if all tickets issued by law enforcement agencies are being recorded, that fines are being collected, and that laws are being enforced.

We recognize that the Department cannot spend the time and resources to account for every single ticket that is, for example, in the hands of a police officer. However, the Department needs adequate information so that it can follow-up with law enforcement agencies to determine that tickets these agencies have issued are recorded.

The Department has policies and procedures for recording distributed tickets. For example, the Department records the tickets that it sends to law enforcement agencies. We think this system of tracking distributed tickets is adequate. However, the Department did not consistently follow its policies and procedures because it did not record all tickets distributed. We examined two 100,000 blocks of tickets and found that the Department's records did not identify the law enforcement agencies to which it gave 11% of the issued tickets (20% in the previous year).

As well, the Department did not have procedures to ensure it recorded all issued tickets in its automated fines systems. In our 2001 Fall Report – Volume 2, we noted that for a block of 100,000 provincial offence tickets we tested, the Department had not recorded 16,000 issued tickets. In 2001-02, we re-examined that 100,000 block and found that the Department had only recorded 1,000 additional tickets. Therefore, the Department still does not know the status of the remaining 15,000 tickets from that 100,000 block.

We also examined two 100,000 blocks of criminal code informations (informations). Law enforcement officers give informations to persons whom they suspect have made an offence under federal laws. Federal law offences require court appearances and may result in jail or other penalties. Although informations may not have a monetary impact such as an amount payable, they need to be followed up because they relate to serious offences. We tested one of the two 100,000 blocks of informations that the Department issued from 1997 to 1999 and we found that it had not recorded approximately 43,000 of these informations.

Because of these weaknesses, the Department was not able to ensure that it recorded all tickets and informations that law enforcement agencies issued. This could result in lost revenue and it could undermine the deterrent effect of the justice system.

On February 18, 2002, the Standing Committee on Public Accounts (PAC) considered these matters and agreed with our recommendations. At this meeting, the Department's deputy minister told PAC that the Department was not able to track issued tickets because of a lack of fiscal resources and underlying information technology systems.

We think that the Department could improve its tracking of issued tickets and informations without significant additional resources or new information technology systems. For example, the Department could accurately record which law enforcement agencies received tickets. In addition, the Department could perform tests on a sample of unrecorded tickets and informations to determine what has happened to the missing tickets. These tests may reveal that: 1) many of the tickets are still be in the hands of law enforcement agencies and have not been issued; 2) some tickets have been voided for appropriate reasons; and 3) some tickets have been issued but not recorded due to errors or fraud. By doing these tests, the Department could determine the significance of the missing tickets as a whole, and what further steps it should take to track the unrecorded tickets.

The Department's internal auditor should be able to perform the above noted tests of unrecorded tickets.

We continue to recommend that the Department:

- follow its established procedures for recording tickets distributed to law enforcement agencies; and

- strengthen its procedures to ensure that the Department records the tickets issued by law enforcement agencies.

The recording, tracking, and enforcement of fines

The Department needs to continue to improve its court information system to ensure that it carries out all court decisions.

The Department records tickets that it receives from law enforcement agencies in the Department's computer systems. The Department uses the Justice Automated Information Network (JAIN) to record all court decisions related to tickets and fines. In addition, the Department records monetary and non-monetary fine "payments". Non-monetary payments are recorded when offenders select the fine option program alternative to pay their fines (i.e., community service).

The Department must ensure the accuracy and integrity of the information in the JAIN system to ensure that it carries out court decisions. To do this, the Department must ensure that what is supposed to get recorded in the computer system is recorded, changes to the information in the system are accurate and authorized, and the information remains in the system.

The Department also uses the JAIN system to determine the amount of uncollected fines. Therefore, the Department must also ensure the accuracy and integrity of the financial information contained in the JAIN system. We found that the Department:

- did not ensure that only authorized persons have access to its system and data; and

- did not ensure that every change to information in its computer system is properly authorized.

We first reported this matter in our 1998 Fall Report – Volume 2. On January 4, 1999, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Department improve its procedures for ensuring the accuracy and integrity of its court information system.

The Department told us that after March 31, 2002, it took steps to help ensure that only authorized persons have access to its system and data. This includes reviewing user accounts to ensure that current access was appropriately restricted. Also, the Department now relates all accounts to an employee, rather than to an office or a group of persons. This enables the Department to determine who authorized transactions in its systems.

The collection of unpaid fines

The Department should improve its procedures for collecting court-ordered fines.

During the year ended March 31, 2002, the Department recorded total fines revenue of $14.3 million. The collection rate for tickets issued during the year is expected to be approximately 77%. In 1996, the collection rate was approximately 84%.

The Department attributes the decrease in the collection rate to the 1996 changes in the sentencing provisions of the Criminal Code. Prior to1996, offenders could settle their court ordered fines by paying the fine, by using the fine option program (i.e., community service), or by serving time in jail. After 1996, the Criminal Code eliminated the possibility that persons could be put in jail if they failed to pay their fines. For the year ended March 31, 1996, the Department received settlement of court ordered fines through the fine option program and time served of $2.4 million. For the year ended March 31, 2002 the amount was $1.15 million.

In 1993, the Department established the Fine Collection Review Committee (Committee) to review its fine collection program. The mandate of the Committee is to recommend options for increasing the collection of fines. The Department told us that it has recently replaced the Committee with an informal committee that meets monthly to discuss fine collection issues.

In August 1995, the Committee made sixteen recommendations. The Department has implemented a number of these recommendations that increase the likelihood that fines will be paid. For example, it has allowed offenders to pay fines by credit or debit card, partnered with Saskatchewan Government Insurance (SGI) to prevent offenders from renewing their drivers' licenses if they have unpaid fines, and it has assigned unpaid fines to collection agencies.

The Department told us that it has pursued, but has not fully achieved, a number of significant recommendations. These recommend that the Department:

- develop comprehensive, accurate financial reports so that management can compare actual collections with expected collections;

- use the driver licence non-renewal process for out-of-province persons who have not paid Saskatchewan fines (the Department has reached agreements with two provinces, but has been unable to implement the agreements); and

- make an agreement with Saskatchewan Government Insurance to refuse vehicle registration for persons with unpaid fines. Other provinces use this method of encouraging fine payments.

The purpose of a fine is to deter the public from violating laws. If the Department does not vigorously pursue collection, fines will not serve as effective deterrents. Without effective deterrents, our communities will be less safe.

We reported a similar matter in our 1998 Fall Report – Volume 2. On January 4, 1999, PAC considered this matter and agreed with our recommendation and added:

> Further, where possible that procedures be developed to ensure that when repeat offenders appear in the court, the sentencing judge will be informed if previous fines are unpaid.

We continue to recommend that the Department review its procedures for collecting fines and:

- implement the recommendations of the Fine Collection Review Committee;

- establish performance targets for fine collections and the performance measures needed to monitor progress in achieving the desired targets; and

- ensure that when repeat offenders appear in court, the Department informs the sentencing judge of any unpaid fines.

The Department told us that it is continuing to pursue the Committee's recommendations and is monitoring other jurisdictions for additional options to improve its collection of fines. In addition, the Department has included some fine collection performance measures in its 2002-2003 strategic plan, although it has not provided this information to the public. The Department also told us that it plans to implement a pilot project in the fall of 2002 to ensure that when repeat offenders appear in court, the Department informs the sentencing judge of any unpaid fines.

Contingency plans required

The Department needs a written, tested, and approved contingency plan for its information technology (IT) systems.

The Department depends on its IT systems to carry out its programs and services. To provide continuous service, the Department must ensure that its IT systems and data are available when needed.

The Department performs adequate backups of its IT systems, i.e., it makes regular copies of essential information and stores the information in a safe location. However, it does not have plans to meet the equipment and facility needs of the Department to support its IT systems. Having a backup of data is of no use if the computer equipment and facilities needed to use the data are not available.

The Department needs to identify the importance of its systems and the length of time the Department could continue to operate without these systems. The Department should then develop adequate plans to ensure that it can obtain timely access to the necessary equipment and facilities, data to operate its IT systems.

Until the Department has an adequate IT contingency plan, it faces increased risk that:

- it may miss commitments, need to delay decisions, and lose essential data; and
- it may face increased program and service costs and declining public confidence in the Department.

We also reported this matter in our 1997 Spring Report and 1997 Fall Report – Volume 2. On October 8, 1998, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Department prepare a written, tested, and approved contingency plan for its IT systems.

Internal audit needs strengthening

The Department has an internal auditor. The Department's Finance and Audit Committee (Committee) needs to ensure that the internal auditor can provide it with information on the effectiveness of the Department's controls to safeguard assets and to ensure that its revenues and expenses comply with the law.

The Committee is comprised of senior management. One of the Committee's responsibilities is to oversee and provide direction to the Department's internal auditor.

The objectives of the internal auditor are to report to senior management the following areas:

- the adequacy of protection afforded public funds and assets;
- the adequacy of protection afforded monies being held in trust;
- the extent of compliance with legislative, central agency and departmental direction;
- the reliability and adequacy of information available for decision making and accountability purposes; and
- where resources permit, the design, development, and implementation of all significant systems, procedures, processes and controls.

The internal audit is not meeting all of the objectives described above. The internal auditor focuses on the Department's revenue generating divisions such as court offices and local registrars. The internal auditor should audit those processes and expenditures where the Department is at greatest risk of loss of public money or money being spent for unintended purposes.

1. We recommend that the internal auditor audit the Department's key risks.

Better project management practices required

The Department needs to continually assess and consistently apply its project management practices to ensure that its agencies use appropriate skills, processes, and resources to manage their information technology (IT) projects.

The Department's agencies manage the development and implementation of new IT systems for the delivery of their programs and services. To reduce the risks of failure, the Department needs to ensure that its agencies have appropriate skills, processes, and resources to manage these projects.

The Department's IT strategic plan states that the Systems Services Branch is responsible for building, enhancing, and maintaining its information technology infrastructure. The Department has policies and procedures for systems development and project management. These policies and procedures include ensuring compliance with departmental standards and procedures.

For the year ended March 31, 2001, the Department did not apply its project management policies and procedures on some of its information technology projects. We recommended that the Department consistently apply project management best practices. We also recommended that the Department do a lessons-learned study on the Office of the Public Trustee information technology project.

On February 18, 2002, PAC considered these matters and agreed with our recommendations.

In 2001-02, all existing information technology projects consistently follow the Department's policies and procedures. However, the Department has not documented its lessons learned from the Office of the Public Trustee's information technology project. A lessons-learned project would help to reduce the risks for future projects.

We continue to recommend that the Department strengthen its project management practices by identifying the lessons learned from the Office of the Public Trustee's recent information technology project.

The Department told us that it is currently doing a lessons learned on the Office of the Public Trustee information technology project.

Complete financial statements needed

Senior management needs better financial information to manage the Department.

The financial reports senior management uses to manage the Department are incomplete. The reports show the results of the Department's operations (i.e., its revenues and expenditures), but not what the Department owns and owes (i.e., its assets and liabilities). As well, the financial reports do not include the assets, liabilities, revenues, and expenses of the agencies for which the Department is responsible.

Users of performance reports naturally tend to focus on the information presented in the reports. Because managers do not receive regular reports on what the Department owns and owes, they focus on annual operations and ensuring that the Department does not overspend its appropriation. Managers tend to pay less attention to the assets and liabilities that they must manage well to provide needed services.

Without complete financial reports, senior management may make incorrect decisions.

We recognize that the lack of complete financial statements for Government departments is a government-wide issue. Supervising agencies need to lead the preparation of departmental financial statements that would include common accounting policies and statement presentation.

Annual report needs improvement

The Department's annual report needs improvement.

We reviewed the annual report of the Department for the year ended March 31, 2002. The Department's annual report does not specifically address its key risks or explain the systems and practices that it uses to manage these risks. The report should explain the key risks the Department must manage well to succeed. To assess the Department's performance, the Legislative Assembly and the public need to know how the Department is managing its key risks.

The annual report does set out the Department's overall goals, its objectives by program, and the program activities to achieve its objectives. The Department sets out activities and results by program. The Department, however, does not state whether it has made progress in achieving its goals. Also, the report does not set out the Department's performance measures and targets, and actual results compared to plans. The Department noted in its annual report that it plans to provide performance information in future years.

The annual report states that the Department is participating in the government–wide accountability project and that it is committed to identifying performance measures for determining and reporting on the effectiveness of its programs.

The annual report does not include financial statements for the Department. It shows, however, the Department's revenues and expenditures. It also shows the Department's investment in capital assets, but it does not show what else it owns and owes. For example, the report does not disclose the Department's accounts receivable or financial commitments.

Public confidence in the Department's ability to meet its objectives is important to the Department's success. Public confidence should strengthen when the Department improves its annual report because strengthening accountability promotes better management.

We reported this matter in our 2000 Fall Report – Volume 3. On June 13, 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Department's annual report describe:

- ♦ the key risks that it faces and its plan to manage these risks;
- ♦ the Department's performance measures and targets and actual results compared to plans; and
- ♦ what the Department owns and controls.

The Department told us that it prepares its annual report in accordance with government guidelines for preparing annual reports.

The Office of the Public Trustee

The Office of the Public Trustee for Saskatchewan (Trustee) administers the property and financial affairs of approximately 6,060 clients. Clients include dependent adults, infants, and estates. The Trustee is assisted by two Deputy Public Trustees and approximately 31 staff. Effective May 16, 2002, the Trustee is now known as the Public Guardian and Trustee of Saskatchewan.

For the year ended March 31, 2002, the Trustee received $38 million, paid $40 million on behalf of its clients, and held assets worth $143 million. The Trustee holds the majority of clients' assets in an investment fund. The Trustee is also responsible for the personal items of clients, such as real estate, vehicles, furniture, appliances, and miscellaneous items.

Clients depend on the Trustee to manage their financial affairs. The Trustee is responsible for protecting clients' assets and making financial decisions and payments on their behalf. The Trustee needs strong administrative systems to carry out these duties. Without strong administrative systems, the clients' assets and the administration of their financial affairs are vulnerable.

Update of previous recommendations

In our 2001 Spring Report, we reported that the Trustee's rules and procedures to safeguard and control client's assets were not adequate to ensure compliance with the law. We made eight recommendations under the following headings:

- administration of clients' affairs needs improvement; and
- system acquisition controls need improvement.

We also reported that the Trustee could not prepare its March 31, 2000 financial statements.

In our 2001 Fall Report, we described the Trustee's progress in implementing our recommendations noted above. We again reported that the Trustee could not prepare its March 31, 2000 and its March 31, 2001 financial statements.

We are pleased to report that at March 31, 2002, the Trustee had adequate rules and procedures to safeguard and controls its clients' assets. As well, the Trustee has prepared its March 31, 2000, March 31, 2001, and March 31, 2002 financial statements. Due to the delays in completing these financial statements, the Trustee has not complied with the *Tabling of Documents Act* as we describe below.

Now that the Trustee has resolved the control weaknesses, the next step for the Trustee is to determine if it has received the expected benefits from its new system and advise the Legislative Assembly of its progress. In our 2001 Spring Report, we recommended that the Public Trustee improve its processes to ensure that it receives the benefits it planned to receive from the system.

Prior to developing the system, the Public Trustee prepared a business plan, including a cost benefit analysis that outlined benefits to be achieved. At March 31, 2002, the Public Trustee does not know if all of the benefits have been achieved.

Non-compliance with the Tabling of Documents Act

The Tabling of Documents Act, 1991 requires the Trustee to give its financial statements to the Legislative Assembly (Assembly) by October 27, 2000. Likewise, the Trustee was required to give its March 31, 2001 statements to the Assembly by September 27, 2001, and its March 31, 2002 financial statements by August 28, 2002. At the date of this report, the Trustee has not given the above financial statements to the Assembly. Accordingly, the Trustee did not comply with *The Tabling of Documents Act, 1991*.

Judges of the Provincial Court Superannuation Plan

The Judges of the Provincial Court Superannuation Plan (Plan) was established under *The Provincial Court Act* (continued as *The Provincial Court Act, 1998).* The Plan is a defined benefit final average pension plan. The Plan provides pensions to retired judges and dependants of deceased pensioners. The Public Employees Benefits Agency (PEBA) provides day-to-day management to the Plan.

In 2002, the Plan had contributions from judges of $0.26 million and superannuation allowances of $1.7 million. At March 31, 2002, the Plan held assets of $12.2 million and had liabilities of $53.9 million. Any allowances payable to superannuates in excess of an individual's accumulated contributions are considered a deficiency and are recovered from the General Revenue Fund. In 2002, the Plan had deficiency recoveries from the General Revenue Fund of $1.6 million.

Verification of investment manager compliance reports

The Plan's management needs adequate rules and procedures to ensure the Plan's investments comply with the law and the Plan's investment objectives.

The Plan's management is responsible to ensure that all investments comply with the law and the Plan's investment objectives. *The Pension Benefits Act, 1992* sets out the investment requirements that the pension plans must follow. Pension plans sometimes contract with investment managers to make investment decisions. Pension plan managers must ensure their investment managers comply with the requirements of the plan's investment objectives and with the law. Plan managers can do this by independent verification of their investment manager's compliance reports.

The Plan's contract with its investment manager requires the manager to ensure the Plan's investments comply with the law and the Plan's investment objectives. Quarterly, the Plan's management receives investment compliance reports from the investment manager. However, the Plan's management does not verify those reports. To ensure that all investments comply with the law and the Plan's investment objectives the Plan's management should establish rules and procedures to verify the investment manager's compliance reports. Alternatively, the Plan's management could receive periodic independent assurance on the adequacy of the systems and practices the investment manager uses. The Plan's management does not have rules and procedures to verify the investment manager's compliance reports. Nor does the Plan's management receive independent assurance on the adequacy of the systems and practices the investment manager uses. As a result, we cannot determine if the Plan's investments complied with the law and the Plan's established investment objectives.

2. We recommend that the management of the Judges of the Provincial Court Superannuation Plan establish rules and procedures to ensure the Plan's investments comply with the law and the Plan's investment objectives.

Capital Asset Plan

This section examines the capital asset plan of the Department of Justice. The Department is responsible for the administration and delivery of justice in Saskatchewan and the protection of basic legal rights and relationships. To carry out its role, the Department must ensure that it has the capital assets necessary to meet the needs of the justice system. Capital assets enable the Department to deliver programs and services to pursue its mission of promoting safe communities, social and economic order, and just relations.

If the Department does not adequately manage its capital assets, it may not be able to deliver programs and services efficiently and effectively. If the Department allows maintenance or replacement of capital assets to be delayed, it may achieve short-term savings, but incur large maintenance and replacement costs in future years. This may have a serious impact on future resource allocation decisions.

These risks may be reduced if adequate capital asset plans are available and acted upon. Having a plan will put the Department in a better position to ensure that the capital assets required to provide programs and services are in place and the assets function satisfactorily to protect and serve the public.

Background

On March 26, 2002, the Government announced a reorganization of government departments. The Government transferred responsibility for corrections from the Department of Justice to the new Department of Corrections and Public Safety. This audit focuses on the Department of

Justice's plan as it existed just prior to the reorganization. The findings, conclusions and recommendations are relevant to both departments, which carry forward their respective planning responsibilities.

The Department's main capital assets include facilities and information technology systems. The Department rents facilities from Saskatchewan Property Management Corporation (SPMC). These include courthouses and office space (and, until the reorganization, correctional facilities). The Department spends approximately $12.5 million annually on rent. The Department also has significant information technology capital assets.

Audit objective and criteria

The objective of this audit was to determine whether the capital asset plan of the Department adequately included the key elements of capital asset plans in the public sector. We examined the capital asset plan approved by the Deputy Minister or senior Department management and available for use on March 23, 2002. We recognized that this plan could be located in different documents. We focused on the information senior managers need for decision-making.

In carrying out the audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

We first reported the audit criteria that we used for this audit in Chapter 1B of our 2001 Spring Report. These criteria identify key elements for capital asset plans. Six Saskatchewan government agencies confirmed that the criteria are reasonable and appropriate expectations for capital asset plans in Saskatchewan. These agencies emphasized the importance of planning at least ten years ahead for major equipment, buildings, and other infrastructure.

Exhibit 1 outlines the key elements for capital asset plans in the public sector.

Exhibit 1

Criteria for capital asset plans

Public sector capital asset plans should include the following key elements:

1. **Capital assets required to support strategic objectives and programs**
   - overview of strategic objectives that will impact capital assets
   - summary of required capital assets for next ten years in line with strategic direction
   - responsibility for capital assets

2. **Gap between required and existing capital assets**
   - summary of existing capital assets
   - risks related to existing capital assets
   - gap between existing capital asset capacity and needs for ten years

3. **Strategies to manage capital assets**
   - strategies to obtain capital assets to meet program needs
   - strategies to operate capital assets
   - strategies to maintain capital assets
   - strategies to dispose of capital assets no longer usable or required

4. **Justification of capital asset strategies**
   - criteria used to select capital asset strategies
   - outline of capital and non-capital alternatives to achieve strategic objectives
   - explanation of how capital asset strategies minimize key risks

5. **Financial implications of capital asset strategies**
   - estimated life-cycle costs for planned capital assets over the next ten years
   - sources of money to carry out capital asset strategies

Audit conclusion and recommendation

We found that the Department's capital asset plan adequately included the key elements for capital asset plans, except for the following matters. The Department did not adequately summarize the capital assets it would require for future program delivery. In addition, the Department did not adequately set out the criteria it used to select its capital asset strategies. Because of the reorganization, these recommendations are relevant to both the Department of Justice and the Department of Corrections and Public Safety.

3. **We recommend that the Department include in its capital asset plan a summary of all of the key capital assets it will require to deliver programs and services.**

4. **We recommend that the Department include in its capital asset plan the criteria it uses to select capital asset strategies.**

Findings by criteria

For each criterion, we set out our expectations (in italics) and our audit findings. We describe these findings to illustrate existing practices and to highlight challenges faced by the Department.

Capital assets required to support strategic objectives and programs

We expected that a capital asset plan should provide a strategic overview. It should summarize the capital assets required to support the Department's strategic objectives and programs over an adequate time frame. The plan should also state who owns and is responsible for capital assets (e.g., the Department, SPMC, or others).

The Department's plan included an overview of strategic objectives. The Department linked its strategic objectives to its capital requirements. We also found that the Department adequately addressed ownership and responsibility for capital assets throughout its plan.

However, the Department's plan did not include an adequate summary of the key capital assets required to support strategic objectives and programs. The plan addressed certain capital projects with time frames from three to eight years. The plan did not summarize all of the key capital assets the Department required to fulfill its mandate over that time period.

Gap between required and existing capital assets

We expected that a capital asset plan should summarize the capacity of the Department's existing capital assets. The plan should describe the gap between the Department's existing assets and the assets that the Department needs to deliver its programs and achieve its objectives. The plan needs to outline the risks that the Department faces with its existing assets.

The Department's plan summarized the capacity of its existing assets. The Department has listings of all key capital assets. The plan documented the condition of assets, including facilities recently assessed by the Department and information technology assets.

The Department's plan noted key asset gaps that were crucial for the Department to address to continue delivering programs and services in a safe and effective manner. The plan described critical timing issues. The time frame of the plan ranged from three to eight years. Plans for key capital assets essential for program and service delivery should reflect the higher end of this range or look even further ahead.

We found that the Department's plan adequately identified risks associated with capital assets. The plan described risks to the Department's ability to deliver its programs and services. For example, the plan discussed risks relating to aging information technology equipment. The plan also discussed risks in terms of meeting fire or health and safety standards.

Strategies to manage capital assets

We expected that a capital asset plan should include various strategies to manage the assets. These include strategies to operate, maintain, and dispose of assets, as well as to acquire new assets.

We found that the Department's plan described strategies to acquire assets. For example, the plan included the method, timing and cost of acquisitions. The plans discussed various options, such as renovating versus constructing, and leasing versus buying. The plan outlined standards such as performance standards to enable staff to be effective in their work.

The Department's plan also described strategies for the operation of assets. The plan outlined staffing and training requirements to operate assets, as well as physical requirements for some facilities.

The Department's plan adequately addressed maintenance for key capital assets. For facilities rented from SPMC, ongoing maintenance is the responsibility of SPMC. The Department's plan included discussion regarding maintenance of certain facilities. The plan outlined maintenance requirements for information technology assets. Finally, the plan included strategies to dispose of information technology assets.

Justification of capital asset strategies

We expected that a capital asset plan should describe the reasons for the department's decisions about assets. By justifying asset strategies, the plan provides important information about what the Department is expecting to achieve with the assets. The plan should outline alternatives, including non-capital alternatives, for achieving its objectives. The plan should also explain how the selected strategies will minimize key risks.

The Department's plan outlines some performance expectations for capital assets. However, the plan does not adequately set out criteria for capital asset decisions. For example, the Department does not set specific criteria for branches to follow when preparing capital asset requests. Describing the reasons behind the Department's capital asset strategy would promote a consistent approach to managing capital assets.

The Department's plan discusses alternative methods for pursuing its strategic objectives. For example, the plan described various lease and purchase options for information technology capital assets.

The plan also describes how selected strategies will minimize risks. The plan noted risks that if not addressed would prevent the Department from providing safe, efficient programs and services.

Financial implications of capital asset strategies

We expected that a capital asset plan should describe the financial implications of its strategies. The plan should include the estimated life-

cycle costs for assets over the long term—up to ten years. It should identify how the Department intends to finance its asset strategies (e.g., reserves, loan, donations, and/or operating budget).

The Department's plan described the financial implications of the Department's strategy, with the time frame covering three to five years. The plan included costs to maintain and operate capital assets as well as acquire them. For information technology capital assets, the plan used a total-cost-of-ownership model to estimate life-cycle costs.

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Intergovernmental and Aboriginal Affairs

8

Executive summary

The Department supervises the First Nations Fund, the Métis Development Fund, and the Government House Foundation. In this chapter, we report that the Department does not have appropriate processes to ensure the First Nations Fund spends public money properly.

The Trustees of each Fund and the Board of the Foundation are responsible to the Minister of Aboriginal Affairs. Accordingly, the Department must ensure that each agency understands and accepts its responsibilities. Then, it must hold each agency accountable. In particular, the Department must take steps to ensure that it and its agencies spend public money only as permitted by the law and agreements.

The Department should take prompt action to change the spending practices of the Trustees of the First Nations Fund. In Chapter 8 of our 2001 Fall Report – Volume 2, we recommended that the Trustees should set up processes to know First Nations and the FSIN spend money that they receive from the Fund as permitted by the law.

Unfortunately, up to October 2002, the Trustees have not changed their practices. The Trustees continue to make payments without knowing if First Nations and the FSIN spend the money only for authorized purposes. The Trustees also continue to make other payments not permitted by law. In addition, we report that the First Nations Fund needs to provide legislators and the public with an annual report.

We report that generally the Métis Development Fund is well managed. We make one recommendation to help it avoid conflict of interest situations. We also report that the Métis Development Fund needs to improve its annual report.

We also highlight steps that the Department has taken to obtain information to enable it to monitor and report progress toward achieving the goals set out in *A Framework for Cooperation*. This is a key government strategy to improve the long-term future of Métis and off-reserve First Nations people and increase their participation in the Saskatchewan economy.

Introduction

In this chapter, we set out:

- a brief overview of the Department's mandate and spending;
- the status of the Department's coordination of *A Framework for Cooperation*; and
- the results of our 2002 audits of the Department and the various Crown agencies for which it is responsible.

Understanding the Department

The mandate of the Department is to coordinate, develop, and implement the Government's policies and programs: governing relations between other provincial, federal, or international governments or governing organizations; and relating to the social development and economic development of the First Nations and Métis peoples.

The Department's web site contains its annual reports, other key publications and agreements and further information about its programs. It is located at http://www.graa.gov.sk.ca/.

Related special purpose funds and agencies

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

	Year end
Métis Development Fund (operates as the Clarence Campeau Development Fund)	December 31
First Nations Fund	March 31
Government House Foundation	March 31

Each special purpose fund tables separate financial statements in the Legislative Assembly each year. The Foundation and the Métis Development Fund table annual reports including their audited financial statements in the Assembly.

Overview of Department spending

The Public Accounts 2001-2002: Volume 2: Details of Revenue and Expenditure (2001-2002 Public Accounts – Volume 2) reports information about the Department's revenue and expenses (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts).

The following is a list of major programs and spending reported in 2001-2002 Public Accounts – Volume 2:

	Original Estimates	Actual
	(In millions of dollars)	
Administration	$ 1.1	$ 1.2
Accommodation and Central Services	1.2	1.6
Provincial Secretary	2.2	2.4
Intergovernmental Affairs	3.1	2.6
Aboriginal Affairs	38.8	44.1
	$ 46.4	$ 51.9

Spending on Aboriginal Affairs includes $18.8 million for payments under the Treaty Land Entitlement agreements, $18.9 million for payments under the First Nations gaming agreements, $2 million to the Métis Development Fund, and $1.2 million to municipalities and school divisions as compensation for tax loss.

Effective April 1, 2002, the Department amalgamated its programs along with the municipal programs of the former Department of Municipal Affairs and Housing into the Department of Government Relations and Aboriginal Affairs.

Coordinating action across government—a follow-up

Background

In Chapter 8B of our 2001 Fall Report – Volume 2, we reported on our audit of the adequacy of the Department's processes to coordinate action on the goals set out in *A Framework for Cooperation: Practical Approaches to Issues Affecting Métis and Off-Reserve First Nations*

People in Saskatchewan.[1] *A Framework for Cooperation* sets out four goals (see Exhibit 1). These goals aim to improve the long-term future of Métis and off-reserve First Nations people and increase their participation in the Saskatchewan economy. Métis and First Nations people make up an increasing proportion of Saskatchewan's workforce.

Exhibit 1

Goals set out in *A Framework for Cooperation*

1. Enhance the successful entrance and completion of primary, secondary, and post-secondary education for Métis and off-reserve First Nations people.

2. Prepare Métis and off-reserve First Nations people to participate in a representative provincial workforce.

3. Ensure representative workforce participation by Métis and off-reserve First Nations people in the provincial economy.

4. Improve the individual and community well being of Métis and off-reserve First Nations people.

The Department is responsible for coordinating actions of 12 government departments that contribute towards the achievement of the Framework's goals.

In 2001, we reported that the Department had built a sound foundation to coordinate action across government on the goals set out in *A Framework for Cooperation.* At that time, not all processes worked well to help the Department coordinate action across the participating departments.

We recommended that the Department establish processes to obtain regular, written reports from the participating departments on their actions. These reports would help the Department to monitor progress, and to decide how to coordinate future action. Written reports would make it possible to report progress toward achieving the goals set out in *A Framework for Cooperation*.

On November 5, 2002, the Standing Committee on Public Accounts agreed with this recommendation.

[1] *A Framework for Cooperation: Practical Approaches to Issues Affecting Métis and Off-Reserve First Nations People in Saskatchewan*. http://www.graa.gov.sk.ca/aboriginal.

Annual written reports expected

In this section, we provide an update on actions the Department has taken on the above recommendation since our report in the fall of 2001.

Effective March 2002, Cabinet required participating departments to submit written reports annually to the Department on actions taken to achieve the goals and objectives set out in *A Framework for Cooperation.*

In July 2002, the participating departments submitted their first annual reports to the Department. The Department, along with the committee of participating departments, used these written reports to analyze progress on the action plan.

During October 2002, the Department expected participating departments to use these written reports to help them decide what actions to take in future to advance progress toward the goals in *A Framework for Cooperation.*

The Department is using the reports to monitor what is done, what is not done (and why), and what requires more follow-up action or coordination to achieve its objectives.

We will continue to monitor how the Department uses the written reports to coordinate sustained action on *A Framework for Cooperation* and manage the risk of inaction. In particular, we will monitor how the Department evaluates actions taken and compares progress to planned results. This will help the Department to coordinate useful information for Cabinet decisions.

Audit conclusions and findings

This section contains our audit conclusions and findings for the Department and its agencies for the fiscal years ending March 31, 2002 and December 31, 2001.

To carry out the audit and form the opinions below for the First Nations Fund and the Métis Development Fund, our Office worked with KPMG LLP, the appointed auditor for the First Nations Fund, and with Deloitte & Touche LLP, the appointed auditor for the Métis Development Fund. We worked together using the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors* (to view a copy of this report, see our web site at http://www.auditor.sk.ca/rrd.html).

In our opinion:

- **the following financial statements are reliable:**
  - **for the year ended December 31, 2001**
    - **Métis Development Fund**
  - **for the year ended March 31, 2002:**
    - **First Nations Fund**
    - **Government House Foundation;**

- **the Department, the Métis Development Fund and Foundation had adequate rules and procedures to safeguard and control public money and comply with authorities governing their activities except for the matters reported in this chapter;**

- **the Department, the Métis Development Fund and Foundation complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter;**

- **the First Nations Fund did not have adequate rules and procedures to safeguard and control public money because of matters reported in this chapter; and**

- **we were unable to determine if the Trustees of the First Nations Fund complied with authorities related to the Fund's financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing because of matters reported in this chapter.**

Detailed audit findings of the Department

Better monitoring and supervision needed

The Department provides the First Nations Fund and community development corporations (CDCs) with money for social and economic development programs for First Nations people. The Department does not have appropriate processes to ensure that the Fund and CDCs spend these monies for these purposes.

Under Agreement with The Federation of Saskatchewan Indian Nations (Framework Agreement), the Department pays a portion of gaming profits to CDCs. The Framework Agreement restricts the purposes for which the CDCs can spend these monies and requires the CDCs to have adequate processes to properly account for and control these monies. Also, the Framework Agreement requires CDCs to provide the Department with audited reports each year. The purpose of these reports is to provide the Department with audited information that shows whether the CDCs spent the money for the purposes set out in the Agreement and have used appropriate processes to manage and account for the monies. Using these reports, the Department could determine if the CDCs spent the monies as required and take corrective steps, as necessary. For the year ended March 31, 2002, the Department provided three CDCs with $3.9 million (2001-$1.1 million to one CDC).

Because the CDCs have a March 31 year end, the Department expects to receive the audited reports (required under the Framework Agreement) from them in the next fiscal year. In 2001-2002, it expected to receive audited reports from the one CDC who received money. It did not. By October 2002, the Department received audited 2002 financial statements from another one of the three CDCs who received money. The Department had not yet received any of the other expected reports or taken action to ensure their timely receipt.

In addition, the Department pays a portion of gaming profits to the First Nations Fund. *The Saskatchewan Gaming Corporation Act* (Act) makes the Trustees of the Fund directly accountable to the Minister of Aboriginal Affairs who is in turn accountable to the Assembly for the operations of the Fund. In addition, the Act restricts the use of these public monies.

For the year ended March 31, 2002, the Department provided the Fund with $15.1 million (2001-$11.2 million). The Department must have adequate processes to ensure that the Fund spends this money for the purposes intended. In addition, the Department must ensure that the Trustees of the Fund understand and accept that they have a duty of care to manage public money properly. It must monitor the Fund’s activities to ensure the Fund is operated with due care. The Department needs to receive information from the Fund and undertake steps, throughout the year, that would allow it to achieve this.

In 2001-2002, the Department met and corresponded with the Chair of the First Nations Fund to ensure that appropriate accountability mechanisms were in place for the First Nations Fund. The First Nations Fund:

- agreed to establish rules and procedures in relation to the Fund; and

- agreed to provide the Department with reports from recipients organizations about the use of monies received from the Fund.

For the year ended March 31, 2002, the Department did not receive the information necessary to monitor the activities of the Fund. As explained later in this chapter, the Trustees continue to spend public money without knowing if these monies are being spent for the purposes intended. The Department needs to act promptly to change the Trustee's spending practices.

We continue to recommend that the Department supervise the Trustees of the First Nations Fund to ensure that the Trustees spend public money with due care and in accordance with the provincial legislation. On November 5, 2002, the Standing Committee on Public Accounts (PAC) concurred with this recommendation.

1. We recommend that the Department ensure that it receives sufficient and timely information from each community development corporation to allow the Department to determine if the corporation properly managed, accounted for, and spent the monies provided by the Department only as permitted by the agreement.

In October 2002, the Department advised us that it is establishing processes to ensure it receives the information necessary to determine that the Fund and CDCs spend public money only as permitted.

Detailed audit findings of the First Nations Fund

The Saskatchewan Gaming Corporation Act (Act) established the First Nations Fund (Fund). Cabinet appoints the Trustees of the Fund as nominated by the Federation of Saskatchewan Indian Nations (FSIN).

The Trustees are stewards of public money and are responsible for carrying out economic development, social development, justice, health, and other initiatives relating to Saskatchewan Indian Bands (First Nations) as required by the Act.

The Trustees are accountable to the Minister of Aboriginal Affairs for the proper administration of the Fund. The Minister is accountable to the Assembly for the proper administration of the Fund.

For the year ended March 31, 2002, the Fund had revenues of $14.4 million (2001-$11 million) and expenses of $14.4 million (2001-$11 million). The Fund receives almost all of its revenue from the Department. The Department gave the Legislative Assembly the Fund's financial statements for the year ended March 31, 2002.

The Fund is subject to an audit under *The Provincial Auditor Act*. Cabinet appointed KPMG as the auditor of the Fund.

Lack of progress towards implementing our recommendations

In our 2001 Fall Report – Volume 2, we made the following recommendations.

- The Trustees should establish rules and procedures to ensure that the First Nations use the money received from the Trustees only for the purposes described in *The Saskatchewan Gaming Corporation Act.*

- The Trustees should establish rules and procedures to ensure that recipient organizations (e.g., First Nations Addictions Rehabilitation Foundation) use the money received from the Trustees only for the purposes described in *The Saskatchewan Gaming Corporation Act* and the Framework Agreement.

- The Trustees should ensure that all payments comply with the law; and

- The Trustees should prepare an annual report that includes:
  - the Fund's audited financial statements;
  - the Fund's goals and objectives;
  - the Fund's planned and actual performance;
  - the Fund's risks and how the Trustees are managing those risks; and
  - a list of persons and organizations that have received money from the Fund and the amount each person or organization received.

We released our 2001 Fall Report – Volume 2 in December 2001. The following describes what the Trustees have done since December 2001 up to October 30, 2002 to implement our above recommendations. We had expected that by now the Trustees would have established rules and procedures to ensure the First Nations and other recipient organizations (i.e., First Nations Addiction Rehabilitation Foundation, Saskatchewan Indian Veterans Association) spend the money for the purposes described in the law. Also, we had expected the Trustees would have established processes to ensure all payments from the Fund comply with the law. The Trustees have not done so.

Management told us in November 2002 that the Trustees continue to work towards strengthening the Fund's accountability framework. Also, the Chair of the Trustees told us that the Trustees continue to seek ways to ensure that funds are spent for the approved purposes.

The Trustees received work plans for 2001-2002 from two recipient organizations, the First Nations Addictions Rehabilitation Foundation and the Saskatchewan Indian Veterans Association. However, both of these work plans are inadequate. Later in this chapter, we describe why those plans are inadequate.

Management told us that the Fund received reports from some First Nations providing some information on what these First Nations did with the money they received from the Trustees for the year ended March 31, 2002. We examined two of the reports the Fund received. The reports that we examined are not adequate because they do not show the objectives for spending the Fund's money and how successfully they achieved those objectives. While this is a step in the right direction, the Trustees need to clearly communicate what projects they have approved and what information they require from First Nations to monitor if First Nations spend the Fund's money on approved projects.

On March 27, 2002, the Trustees wrote to all 73 First Nations stating that work plans will be required to support future payments from the Fund.

The Trustees did not receive and approve any work plans from First Nations but continue to pay money to them. The Trustees must stop spending public money without ensuring the money is used for the purposes set out in the law. Also, we expect the Department to take action promptly to change the Trustees' spending practices.

We note two other Funds set up under *The Saskatchewan Gaming Corporation Act* (Community Initiatives Fund and Métis Development Fund) have established appropriate processes to ensure the public money that they spend is used for the purposes set out in the law.

The following section describes our audit findings for the year ended March 31, 2002.

Trustees must ensure that First Nations use the money they receive from the Fund for the purposes described in the Act

The Trustees need rules and procedures to ensure that First Nations use the money they receive from the Fund for the purposes described in *The Saskatchewan Gaming Corporation Act*. Also, the Trustees need rules and procedures to ensure that First Nations properly safeguard the money they receive from the Trustees until it is spent.

Section 20(1) of the Act authorizes the Trustees to make payments from the Fund to First Nations for the following purposes:

(a) economic development;
(b) social development;
(c) justice initiatives;
(d) education development;
(e) recreational facilities operation and development;

(f) senior and youth programs;
(g) cultural development;
(h) community infrastructure development and maintenance;
(i) health initiatives; and
(j) charitable purposes in accordance with any agreement between:
    (i) the Government of Saskatchewan or any of its agents; and
    (ii) the Federation of Saskatchewan Indian Nations or Saskatchewan Indian Gaming Authority Inc.

To ensure First Nations spend the money they receive from the Trustees for the purposes described in the law, the 1994 Agreement between the Government and the FSIN states that the Chiefs' Assembly may establish criteria for making payments from the Fund. The established criteria may include the process for such payments and the requirements relating to audits of recipients of such payments (including the appointment of auditors for such purposes).

We expected the Trustees to have a fair and equitable method of allocating money to First Nations in Saskatchewan. To ensure that First Nations use that money for the objectives described in the Act, we expected the Trustees would ask First Nations to provide project proposals to the Trustees. Such project proposals would set out what First Nations planned to achieve and how they planned to spend the money. We also expected the Trustees to monitor how well First Nations achieved the planned objectives and to monitor the use of the money. In addition, we expected the Trustees to have rules and procedures to ensure that First Nations safeguard the money they receive from the Trustees until the money is spent. These expectations are common practices for Saskatchewan government agencies.

The Trustees allocate money to First Nations on a per capita basis using the membership of each First Nation. Allocation to First Nations on a per capita basis is a fair and equitable method. The Trustees paid $12.5 million to First Nations in Saskatchewan for the year ended March 31, 2002. In a letter dated March 27, 2002 to First Nations, the Chair of the Trustees reminded First Nation Chiefs that they could only use the money that they received from the Fund for specific purposes. The letter listed those purposes. The purposes listed were consistent with the Act. However, the Trustees did not receive project proposals setting out what First Nations planned to achieve before giving them money. Also, the

Trustees did not receive reports on what First Nations achieved and where the money was spent. Accordingly, the Trustees did not do any procedures to ensure that First Nations spent the money for the purposes described in the Act. As a result, the Trustees do not know if First Nations spent the money for the purposes set out in the law.

Because the Trustees did not properly carry out their responsibilities, we are unable to determine whether the public money paid to First Nations was spent for the purposes set out in the law.

We continue to recommend that the Trustees establish rules and procedures to ensure First Nations use the money received from the Trustees only for the purposes described in *The Saskatchewan Gaming Corporation Act.*

PAC considered this matter on November 5, 2002 and concurred with our recommendation.

Trustees must ensure that the FSIN uses the money it received from the Fund for the approved purposes

The Trustees need rules and procedures to ensure that the FSIN uses the money it received from the Trustees for the approved purposes.

The Trustees paid the FSIN the following amounts for the First Nations Addictions Rehabilitation Foundation (Foundation), the Saskatchewan Indian Veterans Association (Association), and for the administration of the Fund.

	2002	2001
Foundation	$ 944,350	$ 944,350
Association	150,000	71,250
Administration	100,000	100,000
Total	$ 1,194,350	$ 1,115,600

We expected the Trustees to have asked the FSIN for the business plans for those organizations requesting money from the Trustees. Such business plans would set out what the organizations intended to achieve and how they planned to use the money requested. We also expected that the Trustees would have processes to monitor: how successfully those organizations achieved the planned objectives, the use of the money, and the organizations' progress towards their objectives. In addition, we expected that the Trustees would have rules and procedures to ensure that the recipient organizations safeguarded the money they received from the Trustees until the money was spent.

Payments for the Foundation

The Framework Agreement requires the FSIN to establish a charity that would work in co-operation with government agencies to ensure that effective and accessible prevention and treatment programs for gambling addictions are available to First Nations people. During the year, the Trustees paid $944,350 to the FSIN for the First Nations Addictions Rehabilitation Foundation. The Trustees received a work plan for the Foundation. However, the work plan is inadequate because it does not include a complete financial plan (budget) setting out the resources the Foundation requires to carry out the work plan and to meet its objectives. Also, we did not see evidence the Trustees reviewed and approved the work plan. In addition, the Trustees did not have processes to monitor the actual results compared to the objectives outlined in the work plan.

The Trustees need a complete budget and progress report from the Foundation. The progress report should set out the Foundation's progress towards its approved objectives and where it spent the money.

The Trustees' rules and procedures were not sufficient to know that the money they paid to the FSIN for the Foundation was used for the purposes of the Foundation and that the Foundation is co-operating with government agencies. As a result, we are unable to determine whether the money the Trustees paid to the FSIN for the Foundation was used for the purposes set out in the law and the Framework Agreement.

Payments for the Association

Section 20(1) of the Act authorizes the Trustees to make payments for senior and youth programs. During the year, the Trustees paid $150,000 to the FSIN for the Saskatchewan Indian Veterans Association. The Trustees received a work plan for the Association. However, the work plan is inadequate because it does not include timelines for achieving the objectives or a financial plan (budget) setting out the resources the

Association requires to carry out the work plan and to meet its objectives. Also, we did not see evidence the Trustees reviewed and approved the work plan. In addition, the Trustees did not have processes to monitor the Association's actual results compared to its approved objectives.

The Trustees need a complete work plan from the Association including timelines for achieving the Association's objectives, and a complete budget. The Trustees also need a progress report from the Association setting out the Association's progress toward achieving the approved objectives and where it spent the money.

The Trustees' rules and procedures were not sufficient to know whether the Association used the money as set out in the law. As a result, we are unable to determine whether the money the Trustees paid to the FSIN for the Association was used for the purposes set out in the law.

Payments for the fund administration

The Act states that the pay and expenses of the Trustees and the necessary expenses of administering the Fund are a charge on and payable out of the Fund.

During the year, the Trustees paid the FSIN $100,000 to administer the Fund. We expected that the Trustees would have an agreement with the FSIN setting out the administrative duties that the Trustees required the FSIN to do and a process for paying the FSIN for the expenses it incurred for the Trustees.

The Trustees made a written agreement in December 2001 with the FSIN setting out the administrative duties that the Trustees required from the FSIN. The Agreement requires the Trustees to pay an amount not exceeding $100,000 to the FSIN for the following budgeted expenses.

	2002 Budget
Salaries Benefits	$ 16,621
Staff Travel	1,500
Professional Fees	1,133
Legal Fees	3,500
Operations	61,337
Non-staff Travel	15,909
Total	$ 100,000

The Agreement requires the FSIN to apply the payment only to the specified expenditure. However, the Trustees did not have documents supporting the actual expenses that the FSIN incurred for administration of the Fund. As a result, we are unable to determine whether the money the Trustees paid to the FSIN for administration complied with the law. Also, we do not know how much, if any, the Trustees received as pay and expenses from the Fund.

We continue to recommend that the Trustees establish rules and procedures to ensure that recipient organizations use the money received from the Trustees only for the purposes described in the *Saskatchewan Gaming Corporation Act* and the Framework Agreement.

PAC considered this matter on November 5, 2002 and concurred with our recommendation.

Payments not permitted under the law

Earlier, we said that we are unable to determine whether the Trustees complied with the laws governing the Fund's activities. During our work, however, we found certain transactions that section 20(1) of *The Saskatchewan Gaming Corporation Act* does not permit. Section 20(1) of the Act authorizes the Trustees to make payments out of the Fund for the purposes described in that section. During the year, the Trustees made the following payments that are not permitted by the Act.

Painted Hand Community Development Corporation:		
Retroactive payment for share of casino profits	$	584,402
White Bear First Nation:		
Payments for historical gaming costs		100,000
Total	$	684,402

Painted Hand Community Development Corporation – Retroactive payment for share of casino profits

During the year, the Trustees paid $584,402 to the Painted Hand Community Development Corporation (Corporation). The Trustees approved this payment. Neither the Act nor the Framework Agreement permits the Trustees to make payments to community development corporations (CDCs). Accordingly, the $584,402 payment to the Corporation is without authority.

Management told us the payment represents 25% of the past net profits of the Painted Hand Casino (Yorkton).

First Nations established CDCs pursuant to an amendment to the Framework Agreement. Under the amended Agreement, a CDC can receive, from the Department, 25% of the net profits of a casino that is located on a reserve in that community. As required under the amended Framework Agreement, the Department paid $1,250,000 in 2001-2002 ($1,098,846 in 2000-2001) directly to the Corporation. The law authorizes the Department to make such direct payments to the Corporation.

White Bear First Nation – Payment for historical gaming costs

During the year, the Trustees paid $100,000 to the White Bear First Nation (White Bear) described as historical gaming costs related to the planning and development of the Bear Claw Casino.

In 2001, the Trustees approved a total of $300,000 for payments to White Bear over three years for those historical gaming costs and paid $100,000 during the year ended March 31, 2001. During the year ended March 31, 2002, the Trustees approved and paid another $100,000 to White Bear. Section 20(1) of the Act does not authorize the Trustees to make payments to the First Nations for the planning and development of casinos. Accordingly, the $100,000 payment to White Bear is without authority.

We continue to recommend that the Trustees ensure that all payments comply with the law.

PAC considered this matter on November 5, 2002 and concurred with our recommendation.

Better public accountability required

To assess the performance of the Fund, the Legislative Assembly and the public need to know what the organization is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. The

Legislative Assembly and the public also need information on the Fund's goals and objectives and information on the Fund's performance towards achieving those objectives.

Most public sector organizations publish annual reports. Those annual reports, although still needing improvement, provide information the Legislative Assembly and the public need to assess the organizations' performance. The organizations also provide a list of persons who received money from them and the amount that each person received.

Public disclosure of who received money from agencies spending public money is important for three reasons. First, public disclosure serves to remind officials that they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures that those who spend public money know that their use of that money will be public. Third, public disclosure ensures that the public knows who has received their money.

The Trustees of the Fund do not prepare an annual report. The Trustees give the Fund's annual audited financial statements to the Legislative Assembly. Financial statements alone do not provide all of the information the public needs to assess the Fund's performance. Public support for organizations increases when they are fully transparent and provide performance information to the public and other stakeholders.

We continue to recommend that the Trustees prepare an annual report that includes:

- the Fund's audited financial statements;
- the Fund's goals and objectives;
- the Fund's planned and actual performance;
- the Fund's risks and how the Trustees are managing those risks; and
- a list of persons and organizations who have received money from the Fund and the amounts each person and organization received.

PAC considered this matter on November 5, 2002 and concurred with our recommendation.

Detailed audit findings of the Métis Development Fund

The Saskatchewan Gaming Corporation Act authorizes the Minister of Aboriginal Affairs to designate any Fund operated by the Métis Nation of Saskatchewan Secretariat Incorporated (MNS) as the Métis Development Fund provided:

- the Fund is governed in accordance with the bylaws of the MNS;
- a management board (Board of Directors) has been appointed pursuant to the Act to manage and operate the Fund; and
- the MNS and the Government of Saskatchewan have made an agreement in accordance with the Act respecting the management and operation of the Fund.

On November 9, 2001, the Minister designated the Clarence Campeau Development Fund operated by MNS as the Métis Development Fund. Earlier, on June 11, 1997, the Minister of Economic & Co-operative Development (Government of Saskatchewan) and the MNS made an Agreement (1997 Agreement) for the management and operation of the Fund. A Board of Directors established by the 1997 Agreement administers the Fund.

Under the 1997 Agreement, the Board of Directors consists of nine members. MNS appoints five voting members and two non-voting members to the board. The Minister appoints the remaining two non-voting members.

The purpose of the Fund is to provide loans to qualifying Métis businesses, support community development initiatives, develop the management skills of Métis business owners and entrepreneurs, and pay for the administrative expenses incurred in operating the Fund.

In 2001, the Fund had total revenue of $2.3 million (including $2 million from the Department), expenses of $0.9 million, and net income of $1.4 million. At December 31, 2001, the Fund held assets of $8.1 million.

The Fund's 2001 financial statements are included in the Annual Report of Clarence Campeau Development Fund.

Code of conduct and conflict of interest policies needed

Organizations should have a code of conduct (shared ethical values) and communicate that code to their board members and employees. A code of conduct influences all behaviour in the organization and sets out the organization's expectations concerning behaviour. The code of conduct should extend not only to specific areas where society's expectations are included in the law, but also to issues of general morality[2]. The organizations should then ask their board members and employees periodically to confirm their understanding and compliance with the approved code of conduct.

To fulfil their fiduciary obligations, the Board of the Métis Development Fund must avoid any real or perceived conflicts of interest. They must understand that their primary duty is to act in the best interest of the Fund. In addition, they must place the interests of the Fund ahead of their own interests or interests of any of their associates. The Fund has an appropriate code of conduct and conflict of interest policy for its Board members.

The Board's minutes should document the nature of any Board member's conflict of interest and how the Board resolved it. Such documentation would be helpful for maintaining public confidence, especially in case of controversy about the Board's actions.

To ensure that it deals with all conflicts and perceived conflicts, the Board should adopt a policy requiring the declaration of conflicts at each meeting before approving the agenda. The Board should then document in the minutes whether it faced any conflict of interest issues and how it dealt with them.

The Board allows its members to apply for loans from the Fund for qualifying projects. At December 31, 2001, some Board members owed the Fund $161,329 for outstanding loans. However, during the year, we saw no evidence of any new project proposals from any Board members.

[2] *Guidance for Directors – Governance Processes for Control* by The Canadian Institute of Chartered Accountants.

The Fund did not have a code of conduct or a conflict of interest policy for its employees. The Fund should establish a code of conduct and a conflict of interest policy for its employees.

2. We recommend that the Board:

- **establish a conflict of interest policy for the Fund's employees;**
- **establish a code of conduct for the Fund's employees; and**
- **establish rules and procedures to monitor compliance with the code of conduct and conflict of interest policies.**

Public accountability needed

To assess the performance of an organization that uses public money, the Legislative Assembly and the public need to know what the organization is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. The Legislative Assembly and the public need information on the organization's goals and objectives, the key risks that the organization faces, and information on how the organization manages those risks. Also, the Assembly and the public need information on the organization's progress towards achieving its objectives.

Most public sector organizations publish annual reports. Those annual reports, although still needing improvements, provide information that the Legislative Assembly and the public need to assess the organizations' performance. Most public organizations also provide a list of persons who received money from them and the amount each person received.

Public disclosure of who received money from public agencies is important for three reasons. First, public disclosure serves to remind officials that they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures that those who spend public money know that their use of that money will be public. Third, public disclosure ensures that the public knows who has received their money.

The Fund prepares an annual report. The 2001 Annual Report contains information on the Fund's mission, vision, and its guiding principles. The annual report also describes the Fund's goals and objectives, and includes its audited financial statements. However, the Annual Report does not include:

- the Fund's planned and actual performance;
- information on the key risks the Fund faces and management of those key risks; and
- a list of persons who received money from the Fund and the amount each person received following the standards used by other public sector agencies.

We encourage the Board to improve its public accountability by including the above information in its annual report. Public support for organizations generally increases when they are fully transparent.

3. We recommend the Fund should include in its annual report:

- **the Fund's planned and actual performance;**
- **the Fund's risks and how the Fund is managing those risks; and**
- **a list of persons and organizations who have received money from the Fund, excluding repayable loans, and the amounts for each person and organization.**

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Finance

9

Introduction

Our chapter for the Department of Finance (Department) has two parts.

In Part A, we set out the results of the audit of the Department and the entities it controls.

In Part B, we set our plans to audit of the project management processes used by the Department to manage the implementation of the MIDAS system. The Department is replacing its central financial and human resources system with a new system. The new system is called the MIDAS system. It represents a significant investment in information technology by the Government.

Finance

9A

Executive summary

In this chapter, we report the results of the audit of the Department of Finance (Department) and the entities it controls. Overall, the Department does a good job managing its responsibilities for safeguarding and controlling its assets and ensuring compliance with the law. However, we have significant concerns with the General Revenue Fund (GRF) and the planning and budgeting process.

The GRF's financial statements are not reliable. The financial statements do not record its pension liability of $4 billion, and understate pension costs by $39 million. Also, the financial statements inappropriately record a $280 million transfer from the Fiscal Stabilization Fund as revenue. As a result, the Department's accounting practices are not in accordance with The Canadian Institute of Chartered Accountant's accounting standards for the public sector.

We also report that the budgeting information provided in the budget Estimates needs improvement. For example, the Department does not include the GRF's total expected pension costs for the year in the budget Estimates. Including these costs is important because the Government uses the GRF's budgeted surplus or deficit as a key economic indicator.

However, in Volume 1 of our 2002 Fall Report we discuss a larger issue with the planning and budgeting process. Currently, the Government's public financial plan focuses on the GRF. That plan is not sufficient to have an informed public debate on whether Saskatchewan can afford new and existing programs. Also, a plan focused on the GRF is not sufficient to inform people if the Government plans to live within its means.

We also report that the Department's processes to ensure that investments held by pension plans comply with the law and the investment objectives need improvement.

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 that 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;
- operates a central financial and human resources system for government departments; 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.[1]

Year end March 31

General Revenue Fund (GRF)
Fiscal Stabilization Fund[2]
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

[1] This office is denied access to this Crown agency; therefore, we could not audit the agency (see Chapter 8 1999 Fall Report-Volume 2 for further discussion of the matter)
[2] The Department does not prepare 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: for the year ended March 31, 2002. The financial information is from *Saskatchewan Estimates 2001-02*, *Public Accounts 2001-02: Volume 1: Main Financial Statements* (Public Accounts 2001-02 – Volume 1) (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts), and Saskatchewan Finance's *Annual Report 2001-2002*.

	Original Estimates	Actual
	(in millions of dollars)	
Interest-GRF debt	641	617
Interest-Crown corporation debt	308	320
Total interest on debt	949	937
Pensions and benefits	175	174
Administration	37	37
	1,161	1,148

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

	Original Estimates	Actual
	(in millions of dollars)	
Individual Income Tax	1,185	1,196
Interest-Crown Corporations	308	320
Sales Tax	796	771
Transfers Equalization	377	492
Transfers CHST	594	609
Fuel Taxes	368	354
Corporation Taxes	641	509
Tobacco Taxes	125	120
Income-Government Entities	538	542
Motor Vehicle Fees	113	118
Other	112	114
	5,157	5,145

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 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, 2002, except for the Municipal Employees' Pension Commission. We will report our results in a future report, when we complete our work on this pension plan.

Our Office worked with Deloitte & Touche LLP, appointed auditor for the Saskatchewan Pension Plan, and KPMG LLP, 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 web site at http://www.auditor.sk.ca/rrd.html).

Our Office, Deloitte & Touche, and KPMG formed the following opinions.

In our opinion:

- **the Government's summary financial statements included in the Public Accounts 2001-2002 – 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;**

- **the GRF financial statements included in the Public Accounts 2001-2002 – Volume *1* are reliable except that the transfer from the Fiscal Stabilization Fund is not properly recorded and some pension costs are not recorded.**

- **the Department, its special purpose funds, and Crown agencies, that we audited, had adequate rules and procedures to safeguard and control their assets except for the matters described in this chapter;**

- **the Department, its special purpose funds, and Crown agencies, that we audited, 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**

- **in KPMG's opinion, the Public Employees Pension Plan had adequate rules and procedures to safeguard and control its assets and the Public Employees Pension Plan complied with authorities governing their activities.**

We did not rely on KPMG's opinion on the adequacy of the Public Employees Pension Plan's rules and procedures to safeguard and control its assets or KPMG's opinion on the Public Employees Pension Plan's compliance with authorities governing its activities.

The Provincial Auditor Act requires us to do additional work when we are unable to rely on the reports of appointed auditors. Our additional work consisted of reviewing *The Pension Benefits Act, 1992*, the statement of investment objectives, the investment managers' compliance reports, and discussions with management.

We also report on 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, 2002 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, 2002 includes two reservations. The financial statements are significantly misstated because the GRF's pension costs and the transfer from the Fiscal Stabilization Fund are not reported properly.

The combined effects of these two reservations are as follows:

- the GRF's surplus is overstated by $319 million;
- the transfer from the Fiscal Stabilization Fund of $280 million overstates revenue by $280 million;
- pension expenditures are understated by $39 million; and

- pension liabilities are understated by $4.0 billion, assets are understated by $495 million, and accumulated deficit is understated by $3.5 billion.

Fiscal Stabilization Fund reservation

The Government records transactions between the GRF and the Fiscal Stabilization Fund as revenues or expenditures of the GRF. The substance of the transactions between the GRF and the Fiscal Stabilization Fund are that amounts owed by the GRF to the Fiscal Stabilization Fund must be repaid to the GRF by the Fiscal Stabilization Fund. Canadian generally accepted accounting principles for the public sector do not allow the GRF to record changes in the amounts due to the Fiscal Stabilization Fund as revenues or expenditures of the GRF.

The 2002 GRF financial statements show a liability of $495 million owed to the Fiscal Stabilization Fund. This amount is a reduction of $280 million from 2001. This reduction is recorded as revenue from the Fiscal Stabilization Fund. It is not appropriate to record the $280 million as revenue because it is not revenue earned by the GRF. Instead of recording revenue of $280 million, the GRF should show an asset of $495 million owed from the Fiscal Stabilization Fund.

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

- GRF revenue is overstated by $280 million;
- the GRF’s surplus is overstated by $280 million;
- assets are understated by $495 million; and
- accumulated deficit is overstated by $495 million.

The Fiscal Stabilization Fund was created in April 2000. The stated purpose of the Fiscal Stabilization 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 2002, which amounts to an accumulated deficit of $8.7 billion, is unaffected. Therefore, the only consequence of recording these transactions in the

GRF financial statements is that the actual amount of the GRF surplus is 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.

Last year, we recommended that the GRF financial statements should record transfers to the Fiscal Stabilization Fund as an asset, not as an expenditure. In addition, the GRF financial statements should record any transfers back to the GRF as a reduction of that asset, not as revenue.

In February 2002, The Standing Committee on Public Accounts (PAC) considered this matter and disagreed with our recommendation.

We continue to recommend that the General Revenue Fund financial statements should record transfers to the Fiscal Stabilization Fund as an asset, not as an expenditure and any transfers back to the General Revenue Fund as a reduction of that asset, not as revenue. Canadian generally accepted accounting principles for the public sector do not allow the General Revenue Fund to record changes in the amount due to the Fiscal Stabilization Fund as revenues or expenditures of the General Revenue Fund.

Pension costs reservation

The GRF is responsible for the liabilities of several pension funds. However, the GRF financial statements do not record these liabilities. 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:

- pension expenditures are understated by $39 million;
- the GRF's surplus for 2001-2002 is overstated by $39 million; and
- pension liabilities and accumulated deficit are understated by $4.0 billion.

In previous years, we recommended that the Department account for pension costs in the GRF financial statements in accordance with The Canadian Institute of Chartered Accountants (CICA) accounting standards for the public sector.

In February 2002, PAC considered this matter and disagreed with our recommendation.

We note that Manitoba is the only other provincial government in Canada that publishes financial statements that do not follow CICA accounting standards for pensions.

We continue to recommend that the Department account for pension costs in the General Revenue Fund financial statements in accordance with CICA accounting standards for the public sector.

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, 2002 are as follows:

- budgeted operating expenditures of $5.7 billion are understated by $42 million;
- the GRF's budgeted surplus of $3 million is overstated by $42 million; and
- the budgeted accumulated deficit of $7 billion is understated by $4.0 billion.

In previous years, we recommended that the Department include the GRF's total pension costs for the year in the Estimates.

In February 2002, PAC considered this matter and disagreed with our recommendation.

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

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 pension costs for the year.

In Volume 1 of our 2002 Fall Report, we discuss a 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. This is because it excludes a significant amount of the Government's revenue and spending.

Also, a plan focused on the GRF is not sufficient to inform people whether the Government plans to live within its means. For example, the Government's public financial plan for 2002 says that the Government planned to raise $3 million more in revenue than it would spend. The actual results for 2002 for the GRF show that the Government raised $1 million more than it spent. Focusing only on the GRF could cause people to think that the Government had a plan for the entire Government to live within its means and that for 2002 it did so.

However, the financial results for the entire Government show that the Government did not live within its means in 2002. In 2002, the Government actually spent $483 million more than the revenue it raised. This is nearly a $1 billion turnaround from 2001, when the Government raised $461 million more than it spent. A published financial plan for the entire Government would improve the Government's accountability by allowing legislators and the public to assess whether this financial performance is better or worse than what was planned. Accordingly, in

Volume 1 of our 2002 Fall Report, we recommend that the Government should publish a financial plan for the entire Government.

Special warrants

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2002, the Government approved the spending of $89.6 million by special warrant. It later included these special warrants in an appropriation act.

Verification of investment manager compliance reports

The Department needs adequate rules and procedures to ensure that investments held by the Members of the Legislative Superannuation Plan, the Saskatchewan Transportation Company Employees Superannuation Fund, and the Public Employees Pension Plan comply with the law and the plans' investment objectives.

The Members of the Legislative Assembly Superannuation Plan is a defined benefit final average pension plan. In 2001-2002, this plan earned investment income of $0.9 million, and the market value of its investments increased by $0.1 million. At March 31, 2002, it held assets of $21.7 million and had liabilities of $48.4 million.

The Saskatchewan Transportation Company Employees Superannuation Fund is part of the Public Service Superannuation Plan. This fund is a defined benefit final average pension plan. In 2001-2002, it earned investment income of $1.0 million and the market value of its investments decreased by $0.2 million. At March 31, 2002, this fund held assets of $19.2 million and had liabilities of $28.5 million.

The Public Employees Pension Plan is a defined contribution pension plan. During the year, this plan earned investment income of $91.3 million and the market value of its investments increased by $55.9 million. At March 31, 2002, it held assets of $2.7 billion for the benefit of members.

The Pension Benefits Act, 1992 (Act) sets out the investment requirements that pension plans must follow. Pension plans may contract with investment managers to make investment decisions. However, management is still responsible to ensure that all investments comply with the law and with established investment objectives. Management can do this by verifying the investment manager's compliance reports or management could receive periodic independent assurance on the adequacy of the systems and practices the investment manager uses.

For the above plans and funds, contracts with investment managers require the investment manager to ensure that investments comply with the law and the established investment objectives. Management receives quarterly investment compliance reports from the investment managers.

However, for the Members of the Legislative Assembly Pension Plan and the Saskatchewan Transportation Company Employees Superannuation Fund, management does not verify those reports. To ensure that all investments comply with the law and the investment objectives, management should establish rules and procedures to verify the investment manager's compliance reports. Alternatively, management could get periodic independent assurance on the adequacy of the systems and practices the investment manager uses.

Management does not have rules and procedures to verify the investment manager's compliance reports. Nor does management receive independent assurance on the adequacy of the systems and practices the investment manager uses. As a result, we cannot determine if investments complied with the law and established investment objectives.

For the Public Employees Pension Plan, management established a policy requiring verification of the investment manager compliance reports relating to securities held directly, e.g. bonds and equities. The policy excludes pooled funds[3]. Securities held directly represent about 40% of the total investment portfolio.

As a result, management verifies only about 40% of the investment portfolio of $2.7 billion. To ensure that all investments comply with the law and the investment objectives, management should revise its policy to require verification of all manager compliance reports. Alternatively, management could receive periodic independent assurance on the adequacy of the systems and practices the investment manager uses.

[3] Pooled funds are typically trust funds that hold investments managed by a professional money manager and are similar to mutual funds.

1. **We recommend that management establish policies and procedures to ensure that all investments held by the following plans comply with the law and the investment objectives: the Members of the Legislative Assembly Pension Plan; the Saskatchewan Transportation Company Employees Superannuation Fund; and the Public Employees Pension Plan.**

Public Service Superannuation Plan

The Public Service Superannuation Plan (Plan) consists of the Public Service Superannuation Fund, the Anti-Tuberculosis League Employees Superannuation Fund, and the Saskatchewan Transportation Company Employees Superannuation Fund. The Plan is a defined benefit final average pension plan.

In 2001-2002, the Plan provided superannuation allowances, refunds, and transfers of $95.2 million. At March 31, 2002, it held assets of $20 million and had liabilities of $1.5 billion.

The Public Service Superannuation Board (Board) manages the Plan. The Board's primary objective is to provide superannuation allowances to employees who retire and to the dependants of deceased superannuates and employees in accordance with governing legislation including *The Public Service Superannuation Act*.

Retired members' pensions

The Board needs information about retired plan members who are receiving a pension and have returned to work for the Government. The Board needs this information to ensure that it pays pensions in accordance with the law.

Section 27 of *The Superannuation (Supplementary Provisions) Act* (Act) sets the requirements for stopping pensions when retired members, receiving a pension, are re-employed. The Act allows retired members, receiving a pension, to work for the Government as temporary, casual, or provisional employees for a period not exceeding six months in a fiscal year without any pension reduction. However, the Act requires the Board to stop the pension of a retired member who works for the Government more than six months in a fiscal year. The Act also requires the Board to stop the pension of a retired member re-hired by the Government as a permanent employee on the day the member starts work.

The Board does not have rules and procedures to know if retired members are working for the Government. The Board relies on retired members receiving a pension notifying the Board upon re-employment with the Government. As a result, the Board cannot ensure that all pensions paid comply with the law. Also, because the Board does not have rules and procedures to know if retired members are working for the Government, we cannot determine if the Board complied with section 27 of the Act.

We also reported this matter in our 2001 Spring Report.

In November 2001, the Standing Committee on Public Accounts considered this matter and concurred with our recommendation.

We continue to recommend that the Public Service Superannuation Plan's Board establish rules and procedures to ensure that all retired members receiving a pension, who have returned to work for the Government, are paid in accordance with the Act. Alternatively, the Board should seek changes to the Act.

Management told us it plans to seek changes to the Act.

MIDAS project

9B

Executive summary

In this chapter, we discuss our planned audit of the project management processes used by the Department of Finance (Department) to manage the implementation of the MIDAS system.

The Department operates a central financial and human resources system for all government departments. The Department is starting to replace this system. The Department plans to implement the first phase in April 2003. The new system is called the MIDAS system (Multi-Informational Database Applications).The MIDAS system represents a significant investment in information technology by the Government of Saskatchewan.

Our audit objective is to assess whether the Department has adequate project management processes to implement phase one of MIDAS system. This chapter describes the three criteria we plan to use in our audit. To implement the project, the Department should have:

- adequate processes to maintain management and stakeholder commitment to the project;
- adequate processes to track and report on the realization of project's benefits; and
- adequate project management practices and reports.

We plan to report on the Department's project management processes in 2003.

Introduction and background

The Department of Finance (Department) operates a central financial and human resources system for all government departments. The system provides payment processing, accrual accounting, appropriation controls, payroll, and basic human resources data management. The current systems have been in place for 17 years. Since implementation in 1985, there have been several enhancements to improve the system.

The Department is replacing its current computer systems with Enterprise Resource Planning (ERP) software[1]. In 2001, the Department issued three tenders, one for ERP software, one for an implementation partner, and one for a service bureau (i.e. the provision and maintenance of the new system including hardware and operating system). These tenders have been evaluated and awarded.

The Department plans to implement Oracle Financials over four phases. The Department named the new system the MIDAS system (Multi-Informational Database Applications). The Department plans to begin implementing phase one on April 1, 2003. This first phase includes general ledger, accounts payable, revenue recording, budgeting, forecasting, cash management, and financial management information. Treasury Board approved the first phase with a budget of $6 million in 2001-2002 and $7 million in 2002-2003.

The Saskatchewan Property Management Corporation (SPMC) has the responsibility for purchasing for all of the departments. SPMC has agreed to implement the automated procurement (purchasing) module of Oracle Financials as part of phase one of the MIDAS system.

The MIDAS system represents a significant investment in information technology (IT) by the Government of Saskatchewan. Management told us that the estimated cost of all phases of the MIDAS project is $38 million. The Department expects the new system to benefit all departments by improving the management of financial information. The project is expected to be completed by April 1, 2006.

[1] Enterprise Resource Planning software integrates a large number of functions across an entire organization into one piece of software. This allows all of the various units within the organization (in this case departments and branches) to more easily share information and communicate with each other.

Our planned audit objective and criteria

Our Office plans to audit the project management processes used by the Department to manage the implementation of phase one of the MIDAS project.

Large IT projects are inherently risky. IT projects in government such as this ERP have risks including:

- schedule – ensure the project is done on time;
- cost – ensure the project is done on budget and ensure all costs are included;
- scope – ensure the project meets user needs including the department's; and
- quality – ensure the system is implemented within industry standards including independent quality reviews.

Sound project management processes can reduce these risks and increase the likelihood of a project's success.

The results of our work will provide the Legislative Assembly and the public with independent assurance on how well the Department is managing this major IT initiative. It will determine the strengths of the Department's processes and identify opportunities for improvement, if any. We expect the results of the audit to help the Department and other government organizations to strengthen their project management practices.

We plan to report this audit in two stages. In the first stage (this chapter), we describe the audit and outline the criteria we will use to assess the Department's processes. These criteria will be useful to other government organizations in managing their IT and other projects. In the second stage, we will describe the results of our audit.

Our planned audit objective is to assess whether the Department has adequate project management processes to implement phase one of the MIDAS system. This will involve assessing the Department's readiness to implement the MIDAS system and its project management processes used in the implementation.

Auditors use criteria to evaluate matters that they audit. The criteria outlined in Exhibit 1 and described in the following paragraphs set out the main elements that we will look for when we audit the processes the Department uses to implement the MIDAS system. We based the criteria upon international standards, literature, and reports of other auditors (see selected resources). In particular, we used the Project Management Institute's standard, entitled *A Guide to the Project Management Body of Knowledge*, as the management framework to support the criteria.

We discussed the criteria in Exhibit 1 with key individuals at the Department. They agree that the audit criteria are clear, reasonable, and attainable.

Exhibit 1 – Audit criteria

To implement the MIDAS project, the Department should have:

1. Adequate processes to maintain management and stakeholder commitment to the project;

2. Adequate processes to track and report on the realization of the project's benefits; and

3. Adequate project management practices and reports.

   Adequate project management practices include risk management, scope management, cost and schedule management, human resource management, communications management, procurement management, and quality assurance (see Exhibit 2).

Criterion 1 – Adequate processes to maintain management and stakeholder commitment

We expect the Department to have project management processes to obtain and maintain strong senior management commitment to the MIDAS project. We expect that management will be held accountable for the success of the project. We expect that senior management has a strong project team with adequate resources to carry out the project. We expect that the project fits within the Department's strategic plan. There should be clear communication and reporting throughout the term of the project.

Our review of other jurisdictions and current literature suggests that senior management commitment is the most common, and perhaps the most important, feature of successful projects. Senior management demonstrates commitment by actively overseeing and promoting the project. Management commitment is enhanced when management is held accountable for the success of the project. Having senior management promote the importance of the MIDAS system to other departments, governments, and non-governmental organizations to pursue a common interest in a project helps maintain commitment.

Criterion 2 – Adequate processes to track and report on realization of the project's benefits

We expect the Department to have a process to quantify and track project benefits throughout the project and after implementation. We expect the Department to base these benefits on a strong business case that is consistent with the Department's and the Government's vision, strategic goals, and objectives.

The benefits outlined should be measurable and management should report annually on achieving their benefits. The benefits should include ensuring that the project meets user needs. The business case should outline the full costs of the project and compare the costs to the expected benefits.

Criterion 3 – Adequate project management practices and reports

We expect the Department to have good project management systems and practices to control the implementation of the MIDAS project. We expect the Department to ensure that project teams have the necessary experience, skills, and leadership to manage the project.

Good project management practices include planning and reporting progress against the plan. The project team also needs to manage risk, ensure quality work, and communicate progress and successes. Good project management systems and practices help ensure that project teams meet deadlines, contain costs, and meet requirements. See Exhibit 2 for more information.

What's next?

This report outlines the criteria we will use for our audit. We will report our results in a future report.

Exhibit 2 – Project management framework

The three general criteria of a strong project management climate are:

- management commitment to the project;
- the project's ability to achieve its objectives and benefits; and
- good project management systems and practices.

We will audit to these criteria based on the risk and scope of our project. We will use the Project Management Institute's standard titled *A Guide to the Project Management Body of Knowledge* as the management framework to support the above three criteria.

Integration management – the processes required to ensure that the various elements of a project are properly co-ordinated.

Scope management – the processes involved in determining what the users need, how the needs will be met and verifying if they are met.

Time management – the processes to plan, schedule, and control the project's activities to help get the project done on time.

Cost management – the processes to plan, estimate, and control the project costs.

Quality management – the processes needed to evaluate if the project is managed well and meets the stakeholders' needs.

Human resource management – the processes required to make the most effective use of people involved in the project, including stakeholders. This includes change management, training, and staffing.

Communication management – the processes, including the organizational structure, used to ensure the timely and complete creation, movement, and storage of information.

Risk management – the processes to identify, evaluate, plan, and respond to risks.

Procurement management – the processes to decide what to contract for: tendering and selecting the best contractor; and negotiating, managing and closing the contract.

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Social Services

10

Executive summary

The Department of Social Services is a large, complex agency that spent $580 million delivering its programs.

For several years, we have reported that the Department does not adequately follow its rules and procedures. We continue to report that we are unable to determine if the Department spent all public money it administers for the purposes intended by the Legislative Assembly. For example:

- For social assistance payments, the Department needs to improve its compliance with its established procedures to ensure that only eligible clients receive assistance and that they receive the correct amount of assistance. For example, the Department must strengthen its verification of the continued eligibility of clients to receive assistance.

- For programs delivered by Community-Based Organizations (CBOs), the Department should strengthen its assessment of the CBOs' progress in achieving the Department's operational objectives. To do this, the Department needs to encourage more CBOs to submit timely performance reports.

Also, the Department needs better financial information. The financial reports senior management uses to manage the Department are incomplete. The reports show the results of the Department's operations (i.e., its revenues and expenditures), but not what the Department owns and owes (i.e., its assets and liabilities). Without complete financial reports, senior management may make incorrect decisions.

As well, the Department's annual report needs improvement. To help the Legislative Assembly and the public to assess the Department's performance, its annual report should provide a summary of the Department's financial and operational plans, performance targets, and actual results including its financial statements.

In 1995, we made four recommendations about case planning for employable social assistance clients. The Department needs to complete its planned action on these recommendations.

Introduction

The Department of Social Services manages a significant amount of money for social programs. The Government's summary financial statements show "social services and assistance expenses" of $784 million for the year ended March 31, 2002 (March 31, 2001 - $782 million).

The following table shows the total Government spending for social services programs and services by agency:

	(in millions of dollars) 2002	2001
Department of Social Services	$ 580	$ 579
Department of Municipal Affairs and Housing	139	137
Department of Post-Secondary Education and Skills Training	53	55
Other Government agencies (excluding grants from the Departments of Social Services, Municipal Affairs and Housing, and Post-Secondary Education and Skills Training)	12	11
	$ 784	$ 782

The Department of Social Service's mandate is to:

- help families care for and support their members;
- provide basic income support to people in need;
- work to reduce the risks and disadvantages of poverty;
- protect children from abuse and neglect;
- provide services for youth in conflict with the law;
- promote a standard quality of daycare; and
- support independent community-based services for people with mental and physical disabilities.

The Department received $580 million from the General Revenue Fund to deliver its programs.

The following is a list of major programs and spending as based on the original estimates for the year ended March 31, 2002:

	Original Estimates	Actual
	(in millions of dollars)	
Income Support	$ 324	$ 316
Family and Youth Services	95	95
Community Living	69	71
Regional Service Centres	56	55
Child Care	19	18
Accommodation and Central Services	15	15
Other	10	7
Early Childhood Development	3	3
Total	$ 588	$ 580

The Department is also responsible for the Social Services Central Trust Account.

Key risks the Department faces

It is important that legislators and the public understand the key risks facing government organizations and how they manage those risks. Sharing our understanding with legislators and the public will help them better understand and assess government organizations' performance.

We identify five key risks facing the Department. To be successful, the Department needs to:

- identify the long-term social service needs of Saskatchewan residents that fall within its mandate;
- decide the types, volumes, and standards of essential social services that the Department needs to provide to meet those long-term needs, make those services available, and monitor service delivery;
- contribute to public policy decisions and influence public attitudes on people's social well-being;
- obtain sufficient resources to deliver its services; and

- ensure that the Legislative Assembly and the public know whether the Department is doing the right things well.

In Chapter 17 of our 1997 Fall Report – Volume 2, we describe these risks and the Department's systems and practices to manage those risks in more detail.

Our audit conclusions and findings

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

- **the Department had adequate rules and procedures to safeguard and control its assets except as described in this chapter; and**

- **the Department complied with the authorities governing its financial reporting, safeguarding assets, revenue raising, and spending except as described in this chapter.**

We also report our assessment of the Department's annual report on page 263.

Policies and procedures need to be followed for social assistance payments

The Department needs to follow its rules and procedures to ensure that only eligible persons receive assistance in the correct amount.

The Department paid approximately $250 million in social assistance for the year ended March 31, 2002. The Department has rules and procedures for paying assistance. The Department also has rules and procedures to monitor how well it ensures that only eligible persons receive the right amount of assistance. Examples of its monitoring rules and procedures are:

- verifying and documenting the eligibility of recipients (e.g., living arrangements, employment status, personal income and assets);

- periodic comparison of social insurance numbers with other provinces to ensure that each client is only collecting benefits from one province;

- matching information reported by clients to other government agencies (e.g., Canada Customs and Revenue Agency) to ensure that clients are reporting all income to the Department; and

- carrying out internal audits of social assistance payments after payments are made and comparing the audit results with a pre-established acceptable error rate.

The Department did not adequately follow its established rules and procedures to ensure that only eligible persons received the correct amount of assistance. The Department's rules and procedures require verifying recipients' eligibility when they apply for assistance and at least annually after that.

Twenty-one percent of the client files that we examined did not contain adequate information for the Department to verify the eligibility of applicants. For example, application forms in these files did not contain all required information such as the recipient's identification, employability, assets, income, spouse, and dependants.

The Department's annual verification of each recipient's continued eligibility was not adequate. For many recipients, the Department relied on annual questionnaires filled out by recipients. The Department told us that it viewed these recipients as low risk because they would likely not have significant changes to their eligibility for assistance. The Department did not have a risk management process to decide which clients require closer scrutiny (i.e., which clients require a personal interview versus a mail-in questionnaire). Also, the Department often did not adequately document or verify changes to recipients' eligibility based on information obtained during the annual review.

The Department did not adequately document its verification of expenses (e.g., rent, utilities) paid to, or on behalf of, recipients in forty-six percent of the files we examined.

Thirty percent of the files we examined indicated a significant possibility that the Department made payments to ineligible clients or incorrect payments to eligible clients. These files and related records did not contain adequate evidence that the Department had investigated, or planned to investigate, those cases to ensure that the Department paid the clients the correct amount of assistance.

Because the Department did not adequately follow its rules and procedures, it did not know that only eligible clients received assistance in the correct amount.

Also, because the Department did not adequately follow its rules and procedures, we are unable to determine that only eligible clients received assistance in the correct amount.

We also reported this matter in previous reports. In June 2001, the Standing Committee on Public Accounts agreed with our recommendation.

We continue to recommend that the Department follow its established procedures that ensure that only eligible clients receive assistance and that they receive the correct amount of assistance.

Management's response

For the past several years as part of the Income Redesign initiative, the Department has been developing a new SAP service delivery system which features an active, labour market attachment model of income support to better support clients in their transition to independence. The new model, piloted in Regina and Yorkton in 2001, is now being implemented across the province and introduces new processes in advance of the social assistance application which provide clients with alternatives to social assistance and redeploys staff to assist clients with accessing employment, education, training and community participation opportunities.

The new model features a Call Centre as the first point of contact; JobsFirst which is a new service to inform and connect applicants to local job opportunities; and First Step which informs applicants about their rights and responsibilities. A new approach to working with clients, called Transition Planning, has been introduced along with the process changes which focuses on client strengths rather than barriers and deficiencies.

The social assistance caseload has declined for the past seven years due an improved provincial economy and the redesign of income security programs and service delivery which supports individuals and families to take advantage of employment opportunities. Between July 1994 and July 2002 the social assistance caseload declined by 10,443 cases (25.9%) from 40,350 cases to 29,909 cases.

Internal auditor’s reports need improvement

The Department needs reliable and timely reports from its internal auditor.

The internal auditor's reports provide senior management with assurance that the Department's rules and procedures are working properly to ensure that it spends money according to the law.

The internal auditor examines the following programs:

- Saskatchewan Assistance Plan (SAP);
- Saskatchewan Employment Supplement (SES); and
- Family and Youth Services Programs (i.e., Family and Youth Automated Payment (FYAP)).

Internal auditor’s report on Social Assistance Plan not reliable

The internal auditor’s report on social assistance payments is not reliable.

The internal auditor carries out internal audits of social assistance payments after payments are made, compiles the audit results, and compares the results with a pre-established acceptable error rate. Due to the nature of social assistance, errors in assistance payments are unavoidable. The Department has decided that it will reconsider its procedures for paying social assistance if the results of its internal audit procedures show errors more than 4% of total amount of assistance payments. We think the 4% error rate is reasonable for social assistance payments.

For the year ended March 31, 2001, the internal auditor reported that 77% of the client files audited contained one or more instances where the Department did not follow its rules and procedures for paying social assistance. The Department’s rules and procedures include:

- ensuring complete client identification is on file;
- performing an annual review to verify client circumstances;
- ensuring correct coding of marital status, employability status, maintenance eligibility, or living arrangements; and
- ensuring complete documentation to support income or assets claimed or not claimed by a client, or as support for payments made to or on behalf of the client.

We agree with the internal auditor that the Department did not adequately follow its rules and procedures to ensure that only eligible persons receive assistance and that they receive the correct amount of assistance. However, we disagree with the internal auditor's assessment of the error rate in assistance payments.

The internal auditor reported a 3.5% error rate in social assistance payments for the year ended March 31, 2001. Given the high rate of non-compliance with the Department's rules and procedures described elsewhere in this chapter, the internal auditor cannot accurately determine an error rate.

We provide two examples of non-compliance that would prevent the internal auditor from determining a reliable error rate for social assistance payments.

1. As noted earlier, in 21% of the recipient files that we examined, the Department did not adequately follow its rules and procedures to determine and document the employability of social assistance recipients. The Department works with employable recipients to help them find employment and get off social assistance. Because the Department did not adequately follow its rules and procedures to identify employable recipients and help them find work, the internal auditor was unable to determine the amount that social assistance would have been reduced if the employable recipients had found work.

2. In 20% of the files we examined, the Department did not adequately follow its rules and procedures to ensure that custodial parents pursued child support from the other parent. The Department reduces the amount of assistance provided to the custodial parent through SAP by the amount of child support

received. Because the Department did not adequately follow its rules and procedures to ensure that child support was pursued, the internal auditor was unable to determine the amount that social assistance would have been reduced if custodial parents had successfully pursued child support.

Until the Department follows its rules and procedures for social assistance payments, the internal auditor will be unable to determine a reliable error rate for these payments.

1. **We recommend that the internal auditor prepare reliable audit reports on Social Assistance Plan payments.**

Internal auditor's reports not timely

The Department expects an annual internal audit report on each of the above programs by the end of September. We think the Department needs the audit reports sooner. The Department cannot make timely decisions with audit reports that are six months old. Reporting deadlines of three months after the March 31 year-end would provide the Department with more useful information.

For SAP and SES, the internal auditor did not issue reports for the year ended March 31, 2001 until January 2002. The internal auditor has not reported on the audit of the FYAP program.

Without timely audit reports, the Department cannot be sure that its rules and procedures are working properly to ensure that money is spent according to the law.

We also reported this matter in our 2001 Fall Report – Volume 2. In June 2001, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

We continue to recommend that the Department issue timely internal audit reports.

Maintenance (child support) enforcement needs improvement

The Department needs to ensure caseworkers accurately monitor the pursuit of child support.

The Department requires recipients of social assistance to pursue other means of support before being eligible for assistance. A custodial parent receiving assistance is required to pursue child support from the other parent if obtaining such support is possible. The Department reduces the amount of assistance provided to the custodial parent through SAP by the amount of child support received. The SES program encourages custodial parents to pursue child support by providing additional income to eligible custodial parents who receive child support of at least $125 per month but not more than $3,000 per month.

Twenty percent of the records we examined, which the Department used to monitor the pursuit of child support, were not accurate. We also found several cases where the record showed that the custodial parent may have been eligible for child support, but there was no evidence that that the parent was actively pursuing support.

We reported this matter in prior years. In January 1999, PAC agreed with our recommendation.

We continue to recommend that the Department improve its records to ensure that custodial parents receiving social assistance pursue child support.

Agreements with community-based organizations need improvement

The Department paid $69 million to over 260 community-based organizations (CBOs) that provide social services for the Department. CBOs are non-profit organizations that provide a wide range of programs to local communities for the Department. These programs include group homes, services to enable people to live in their own homes (who otherwise could not), and early childhood and youth-at-risk interventions.

The Department's agreements with CBOs need improvement. In addition, the Department needs to ensure that CBOs submit required reports to the Department and that the Department reviews this information on a timely basis. As well, the Department should work with CBOs to establish performance measures and targets that allow the Department to assess the CBOs' progress in meeting the Department's objectives.

Agreements with community-based organizations

The Department's agreements with CBOs need improvement. Service agreements should:

- set out clearly the Department's financial, operational, and compliance with the law objectives;
- require the CBOs to report periodically to the Department their assessments of the control they have established to achieve the Department's financial, operational, and compliance with the law objectives;
- require the CBOs to report to the Department periodically on the CBOs progress in achieving the Department's objectives;
- allow the Department or an independent auditor to verify the CBOs' reports; and
- describe how the Department will provide money to the CBOs.

For CBOs managing small amounts of public money (e.g., less than $250,000), the Department could have less stringent reporting requirements than those described above. For smaller CBOs the Department could directly monitor and document the CBOs' performance instead of requiring formal performance reports from them.

The Department's annual agreements with CBOs set out the Department's financial and compliance with the law objectives, allow the Department to verify reports received, and describe how the Department will provide money. However, the agreements do not clearly set out the Department's operating objectives. Also, the agreements do not require CBOs to report periodically their assessments of the control they have established to achieve the Department's objectives. Control comprises those elements of a CBO (including its resources, systems, processes, culture, structure, and tasks) that, taken together, support people in the achievement of the Department's objectives. To meet its responsibilities, the Department must know that the CBOs have systems, processes, and other control elements to ensure the proper use of public money entrusted to the CBOs.

As a result of inadequate agreements with CBOs, the Department does not know if its financial, operational, and compliance with the law objectives are being met. Also, because the Department did not adequately follow its rules and procedures, we are unable to determine if the money was used only for the type of payments specified in the service agreements.

2. We recommend that the Department strengthen its service agreements with community-based organizations.

Financial performance reports

Service agreements require the CBOs to provide the Department with quarterly and annual financial reports including a comparison of actual to budget and an explanation of differences. The service agreements also specify the dates that the Department is to receive the reports. The Department monitors the CBOs to ensure they spend the money as intended.

We examined the quarterly and annual financial reports of 18 CBOs. A number of CBOs are not providing the required financial information on a timely basis. Our tests revealed that the CBOs submitted 22 of the quarterly reports and nine of the annual reports (June 30 deadline) late or not at all.

The Department did not do a timely review of CBOs' financial reports. It reviewed 15 reports more that seven months after the CBOs' year ends or not at all. Late reviews of financial reports could result in the Department not taking timely corrective action; if for example, a CBO was not spending public money for the purposes intended.

Because the Department did not adequately follow its rules and procedures, it did not know if all CBOs achieved the Department's financial accountability objectives. Also, because the Department did not adequately follow its rules and procedures, we are unable to determine if the money was used for the intended purposes.

Operational performance reports

The Department requires CBOs to submit annual reports describing their services and activities. However, the Department does not require the CBOs to set performance measures and targets to enable the CBOs to report their progress in meeting the Department's objectives.

As a result, the Department does not know if the CBOs are achieving the Department's operational objectives.

We also reported these matters in previous years. At its June 2001 meetings, PAC agreed with our recommendations.

We continue to recommend that the Department ensure that all CBOs submit timely performance reports to the Department as required by agreements.

We continue to recommend that the Department perform timely reviews on all the performance information submitted by the CBOs.

We continue to recommend that the Department work with CBOs to establish performance measures and targets that better allow the Department to assess the CBOs' progress in achieving the Department's operational objectives.

Management stated they are in the process of developing performance measures and targets for each program area and CBO. They have told us that they hope to include requirements for outcomes-based accountability reporting as part of the service agreements with CBOs' in the future.

Complete financial statements needed

Senior management needs complete financial statements to manage the Department.

The financial reports senior management uses to manage the Department are incomplete. The reports show the results of the Department's operations (i.e., its revenues and expenditures), but not what the Department owns and owes (i.e., its assets and liabilities).

Users of performance reports naturally tend to focus on the information presented in the reports. Because managers do not receive regular reports on what the Department owns and owes, they focus on annual operations and ensuring that the Department does not overspend its appropriation. Managers tend to pay less attention to the assets and liabilities they must manage well to provide needed services.

Without complete financial reports, senior management may make incorrect decisions.

We recognize that the lack of complete financial statements for government departments is a government-wide issue. Supervising agencies need to lead the preparation of departmental financial statements that would include common accounting policies and statement presentation.

Information technology development practices need strengthening

The Department manages large and complex computer systems. It needs to strengthen its policies and procedures for developing and implementing new information technology (IT).

Without good project management practices, the experience of the IT industry shows that most new IT systems do not meet user requirements, costs are exceeded, and the systems are late. To reduce these risks, organizations need policies and procedures, as set out in Exhibit 1, to inform, train, and guide staff on good project management practices. Also, organizations need an effective project management structure to ensure that project teams follow approved policies and procedures.

Exhibit 1 – Project Management Policies and Procedures: Best Practices

Organizations need policies and procedures that set out a project management framework to ensure:

- projects are approved based on reliable estimates (e.g., project benefits, cost, time required to complete the project, and project risks);
- project products (i.e., system requirements) are clearly identified and their development assessed to ensure quality standards are met;
- projects are effectively tracked (e.g., comparisons of budget to actual time, cost, and work completed to date) and the results consistently reported to management;
- project risks are identified and managed;
- project teams have appropriate skills and training;
- user groups are kept informed of progress and receive effective training in using the delivered products; and
- project plans incorporate the lessons learned from previous projects.

The Department is making progress in strengthening its processes for managing IT projects. Progress includes draft policies and procedures and establishing a Project Management function to provide project management expertise and to ensure that policies are followed. The Department also told us that it may restructure its IT branch.

However, more work needs to be done. For example, the Department needs:

- more policies and procedures to fully set out an IT project management framework for the Department;
- an IT organizational structure which includes appropriate project management resources; and
- an IT project management methodology and to ensure staff are adequately trained in its use to ensure that its policies and procedures are effectively implemented.

We have reported this matter in previous reports. In June 2001, PAC agreed with our recommendation.

We continue to recommend that the Department strengthen its policies and procedures for developing and implementing new Information technology.

Annual report needs improvement

The Department needs to improve its annual report. We examined the Department's annual report for the year ended March 31, 2002.

The annual report should explain the Department's key risks in achieving its objectives and the controls in place to manage those risks. To assess the Department's performance, the Legislative Assembly and the public need to know how the Department is managing its key risks. We have set out what we think are the Department's key risks on page 250.

The annual report sets out the Department's operating goals and objectives, and activities to achieve them. The report, however, does not describe the Department's progress in achieving its goals and objectives. Also, the report does not show the Department's performance targets and measures.

The report does not include financial statements for the Department. However, the report shows the Department's financial operating results and its investment in capital assets.

Public confidence in the Department would strengthen if it improves its annual report.

We also reported this matter in previous years. At its January 1999 meetings, PAC agreed with our recommendations, while recognizing the difficulty of setting measurable performance target indicators in a single year.

We continue to recommend that the annual report provide a summary of the Department's financial and operational plans, performance targets, and actual results.

Case planning for SAP clients—follow-up

This section describes our follow-up of action taken by the Department of Social Services up to October 2002 on audit recommendations concerning case planning for employable Social Assistance Plan (SAP) clients.

During 1994-1995, we audited the adequacy of the Department's processes to establish effective case planning procedures to achieve long-term independence for employable social assistance clients. We found the Department had adequate systems and practices to develop case plans. However, they did not have adequate systems or practices to effectively implement, update, or evaluate case plans. We reported our findings and conclusions in our 1995 Spring Report – Chapter 15 (p.167).

At that time, we made four recommendations to the Department about case planning for employable social assistance clients. The recommendations relate to written guidance for social workers, criteria to identify clients, a standardized record system, and evaluation of the effects of case planning. The recommendations are listed below.

In April 1997, the Standing Committee on Public Accounts agreed with our recommendations.

In January 1996, the Department announced it would redesign social assistance service delivery. The redesign initiative is called 'Building Independence'. For the last six years, the Department has been implementing the changes in service delivery that this new initiative required. We delayed our follow-up of the case planning audit until the new service delivery systems were in place.

Our follow-up procedures

To find out if the Department adopted these recommendations, we carried out the following procedures. We considered the current social welfare environment and how it affected our recommendations. We asked officials to tell us about relevant activities. We examined the 2001 training manual Transition Planning Practice Guide and other reports. We also examined several client case files for evidence of case planning in practice. This work is not an audit.

Department action on the recommendations

The Department told us that it continues to support the recommendations about case planning that we made in our 1995 Spring Report. The Department's approach has been to incorporate the recommendations into its new systems to deliver social assistance programs.

The Department chose to implement its redesigned delivery systems in stages. By June of 2002, 75% of new clients received services through the new delivery systems. The Department hopes that the remaining clients will gain access to the redesigned systems by March 2003.

The new systems to deliver social assistance services aim to help clients find employment or training before offering social assistance. The Department's intention is to make SAP a program of 'last resort'. Toward this objective, the Department initiated several new approaches to help clients in need of social assistance:

- Call Centre - province-wide call centre for prompt response to requests for assistance,
- Jobs First – helps clients to find a job,
- First Step – orientation and intake to short-term social assistance, and
- Transition Planning – works with clients to address barriers to employment (e.g., transportation, childcare, high school education, vocational training).

The Department planned that these new approaches would enable it to allocate more resources for case planning.

In 1995, we recommended that the Department provide workers with complete written guidance to carry out, record, and revise case plans.

The Department told us that it has incorporated this recommendation into the redesign of service delivery. The training manual, Transition Planning Practice Guide, sets out required content and format for case plans. In addition, during 2001 and 2002, the Department provided training to all social assistance workers about the redesigned systems including case planning processes.

In 1995, we recommended that the Department establish clear criteria to identify clients most likely to benefit from case planning.

The Department has not yet developed province-wide criteria to identify clients most likely to benefit from case planning. Rather, the Department asked each regional centre to select clients for case planning based on the time available in the region.

Most regions develop case plans for all new clients and prioritize other clients who are most likely to achieve social and economic independence in a short time. The Department's initial focus has been on new clients. As more resources become available (i.e., by redirecting potential clients into jobs or training), the Department plans to develop case plans with those clients having more barriers to economic independence.

In 1995, we recommended that the Department provide a system that helps workers consistently record current case planning information and progress toward client goals.

The Department has not yet implemented a standardized record system. The regions decide how to record case plans (e.g., in paper records or on local computer formats). The Department anticipates that by early 2003, a standard computerized record system will be available for social workers. The proposed record system uses mandatory entries and automatic reminders to help workers consistently record case plans and progress toward client goals.

In 1995, we recommended that when a system that captures the necessary information and consistently records case plans is in place, the Department evaluate the effects of case planning.

The Department has not yet evaluated the effects of case planning due to the lack of a computerized record system. When the system is available and fully in use, the Department plans to produce systematic management reports that will help it evaluate the effectiveness of case planning.

Next steps

The Department intends to continue to implement the recommendations we made in 1995 about case planning for employable social assistance clients. We plan further follow-up of the Department's actions on these recommendations through our annual audit work.

Education

11

Executive summary

Effective April 1, 2002, Cabinet amalgamated the Department of Education with the Department of Post-Secondary Education and Skills Training to form the Department of Learning.

This chapter focuses on the Kindergarten to Grade 12 education system.

In the first part of this chapter, we provide a brief overview of the Department's role, goals, and key risks and report the results of audits of the Department and its four agencies. We note the Department's progress in moving school divisions towards preparing better financial and non-financial information. The Department, legislators, and the public need this information to assess school divisions' performance in achieving the Goals of Education. We report that each agency prepared reliable financial statements. However, two of the agencies need to provide their financial statements to legislators faster. We also report that the Teachers' Superannuation Commission needs to improve its processes to ensure it invests $231 million of its over $1 billion of investments in accordance with the law.

In the second part, we focus on one of the ways the Department encourages schools divisions to use the provincial curriculum successfully. The Department formally evaluates the extent to which school divisions implement the curriculum and reports its results publicly. In these reports, the Department routinely makes recommendations to improve the use of the curriculum. To effect change, the recommendations must be implemented. We report that the Department adequately follows up on these recommendations with one exception. It needs to establish processes to monitor action taken and to report progress towards achieving specific recommendations.

Education

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Introduction

In this part, we set out:

- a brief overview of the Department's role, goals, and key risks; and

- the results of our audits of the Department and the funds that it manages.

Effective April 1, 2002, Cabinet amalgamated the Department with the Department of Post-Secondary Education and Skills Training to form the Department of Learning.

Understanding the Department

It is important that legislators and the public understand the role of the Department and its risks. This helps them to better assess the Department's performance. This section briefly describes the Department's role to March 31, 2002, its goals, risks, and spending.

Role of the Department and its goals

Under *The Education Act, 1995* (Act), the Department is responsible for the overall quality of the Kindergarten to Grade 12 (K-12) education system in Saskatchewan. Also under the Act, 99 locally elected boards of education and conseils scolaires are responsible for the administration and management of school divisions.

Specific responsibilities of the Department include developing policies and provincial curriculum, working with school divisions to deliver the curriculum, regulating independent schools and home-based education, and certifying and classifying teachers.

Table 1 summarizes the Department's goals, objectives, and strategic outcomes as set out in its 2002 Annual Report.

Table 1

Goal 1: All students experience responsive school environments that ensure high quality learning
- 1.1 Curriculum is appropriate, relevant and current
- 1.2 Teaching and learning are supported by appropriate technologies
- 1.3 Curriculum is effectively implemented and supported
- 1.4 Each student is prepared for full and meaningful participation in society

Goal 2: The diverse needs of students are met
- 2.1 Curriculum and learning experiences are structured to address individual student needs
- 2.2 Partners work collaboratively to ensure programs and services respond to the needs of students
- 2.3 Schools receive provincial, community and family support to meet the needs of students

Goal 3: The structural and fiscal integrity of the K-12 education system is maintained
- 3.1 The education system provides for the exercise of constitutional rights
- 3.2 Provincial operating and capital funding is distributed equitably
- 3.3 The education system provides for an appropriate balance of leadership from the Department and local autonomy

Strategic outcomes:
- ♦ A quality education system in which the Goals of Education are achieved. The Goals of Education are intended to develop the intellectual, physical, emotional, spiritual, and social potential of all students in the province to the best of their abilities.
- ♦ Public understanding of and confidence in the school system.
- ♦ Equality of access to and benefit from the services and programs of the education system.
- ♦ Leadership in mediating and facilitating the variety of social and political interests which have an impact on education.
- ♦ Maintenance of the structural integrity, effectiveness, and efficiency of the education system.

Directions, published in 1984, set out the Saskatchewan Goals of Education. The Goals of Education focus on the development of the intellectual, physical, emotional, spiritual, and social potential of all students in the province. Periodic reports provide information on the progress towards achieving those goals. For further information on these goals and indicators, see *Saskatchewan Education Indicators 2000 – Kindergarten to Grade 12*.

The Department's web site contains this report, its annual reports, and other key publications. It is located at http://www.sasked.gov.sk.ca.

Risks the Department faces

The environment in which the Kindergarten to Grade 12 system operates continues to change. These changes can affect the needs of students and society and the delivery of education. Relevant characteristics of

Saskatchewan's population include the number of preschool-aged children, the age distribution of school-aged children, the number of aboriginal children (due to the option of First Nations children attending either a band school if living on a reserve or a provincially-funded school if living off a reserve), and the place of residence. Other factors include socio-economic factors such as level of family income, youth crime rates, and the state of health.

As identified in the *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12,* Saskatchewan's population as a whole continues to age. In 1999, the proportion of the population under age 20 has declined to under 30%. In 1999, the number of Saskatchewan preschool-aged children was insufficient to replace the number of older students who are completing their schooling within the next five years. In 1996, Aboriginal peoples represented 11.4% of the province's population. The proportion of school-aged Aboriginal youth compared with the school-aged population as a whole increased from 1991 to 1996. The Department expects this trend to continue. The population continues to shift from rural to urban areas.[1]

The *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12* also reports increases in personal income from 1992 to 1998 over and above inflation. The Report notes the percentage of Saskatchewan children living in poverty has dropped slightly to 18.6% (48,000 children). It also states that the rate at which Saskatchewan's youth are charged with crimes and the rate of cases before the courts are about double that of Canadian rates.[2]

In 1998, we worked with the Department to identify four areas where ineffective action could limit the Department's ability to successfully carry out its mandate. The four areas are:

- ensuring the provincial curriculum reflects the knowledge and skills that people need;
- providing leadership to ensure the expectations of a quality education system delivered at a reasonable cost are clear and understood;

[1] pp.7 - 9, *2000 Saskatchewan Education Indicators Kindergarten to Grade 12*
[2] pp. 11 – 16, *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*

- ensuring schools have equitable access to appropriate funding; and

- developing and implementing measures to address the diverse needs of children and youth at risk of doing poorly at school.

We examine matters related to these areas. In 1999, we reported on our review of the leadership role of the Department as it relates to vulnerable children and youth. In our 2001 Spring Report, we reported on the adequacy of the Department's processes to maintain the relevance of the core curriculum. In Part B of this chapter, we report on the Department's follow-up on recommendations in curriculum evaluations.

Maintaining a relevant core curriculum—follow-up

In Chapter 4B of our 2001 Spring Report, we reported on our audit of the Department's processes to maintain the relevance of the core curriculum. Maintaining the core curriculum is critical to students' future success. Maintaining the core curriculum helps ensure that what students study in school is relevant.

We reported that the Department's processes to maintain the core curriculum were adequate with one exception. We were unable to determine if the Department used information about resources when it maintained the curriculum.

The Department and school divisions use resources like written materials, equipment, and teacher time to make the transition to a revised curriculum and to deliver the revised curriculum on an ongoing basis. We did not find sufficient evidence that the Department considered the resources required to maintain the curriculum.

We recommended that the Department improve how it documents its use of information about resources in its curriculum maintenance processes. On November 1, 2001, the Standing Committee on Public Accounts agreed with this recommendation. In this section, we describe the Department's actions taken on the recommendation since our report up to the fall of 2002.

Action on the recommendation

The Department has begun to improve how it documents its use of information about resources. The Department has included additional information and analysis about resources in the workplan of one departmental unit out of three that help to maintain the curriculum.

The Department needs to ensure that improvement takes place in all relevant areas. We encourage the Department to integrate similar improvements into the regular practices of all units involved in maintaining the curriculum. Without further attention to these steps, the Department's action will not correct the problem that led to the recommendation.

We will continue to monitor how the Department documents its use of information about resources in its curriculum maintenance processes.

Overview of Department spending

The Kindergarten to Grade 12 education system spends over $1 billion[3] each year. Table 2 sets out the amount of school grants that the Department provides to school divisions. In addition, the Department pays for teachers' pensions and benefits directly. School divisions finance the rest primarily through property taxes.

The following is a list of planned and actual program spending reported for the Department 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). The actual amounts for teachers' pensions and benefits is adjusted from the amounts reported in Public Accounts to reflect the actual annual costs of pensions earned by teachers.

[3] p.42, Saskatchewan Education, *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*

Table 2

	Estimates 2001/2002[4]	Actual 2001/02
	(in millions of $)	
School division grants (operating and capital)	$493.7	$493.0
Teachers pension and benefits	93.4	78.5
Early childhood development	1.6	1.6
Education programs	20.3	19.2
Administration and shared services	3.6	4.1
Accommodation and central services	2.2	2.1
	$ 614.8	$ 598.5

Audit conclusions and findings

This section contains our audit conclusions and findings for the Department and its four agencies, the Saskatchewan Correspondence School Revolving Fund, Learning Resources Distribution Centre Revolving Fund, School Division Tax Loss Compensation Fund for the fiscal year ended March 31, 2002 and Teachers' Superannuation Plan (Plan) administered by the Teachers' Superannuation Commission for the fiscal year ended June 30, 2002.

In our opinion:

- **the financial statements of each of the above mentioned agencies for the year ended March 31, 2002 and of the Plan for the year ended June 30, 2002 are reliable.**

- **the Department and its agencies had adequate rules and procedures to safeguard and control their assets except for matters reported in this chapter; and**

- **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue-raising, spending,**

[4] Saskatchewan Finance, *Saskatchewan Estimates 2001-02*

borrowing, and investing except for the matters reported in this chapter.

In the following section, we briefly set out the detailed findings for the Department, the Learning Resources Distribution Centre Revolving Fund, Saskatchewan Correspondence School Revolving Fund, and the Teachers' Superannuation Commission. We also note that the Department significantly improved its 2001 Annual Report to the Legislative Assembly.

Department

Status of previous recommendations

In this section, we provide an update on the status of prior recommendations that are not yet fully implemented. For each recommendation, we set out the position of the Standing Committee on Public Accounts (PAC) and key activities that the Department undertook in 2001-2002 to move towards compliance with the recommendation.

Proper recording of pension costs needed

The Department has not changed how it recorded and reported on the annual pension costs for teachers.

As previously reported, the salaries and benefits paid to teachers for services rendered include pension benefits. Pension benefits, and thus pension costs, accumulate each year that the teachers work. The Department is responsible for the pension costs of teachers. Pension costs represent about 13% of the Department's total spending.

As previously reported, the Department follows the accounting policy set by Treasury Board for planning and reporting the costs of teachers' pensions. We think that Treasury Board's policy is not appropriate (See Chapter 9 – Finance for further details). Using the policy, the Department bases its decisions (e.g., for teachers' pay) only on the amount of cash that it pays out (i.e., on a cash basis) rather than on pension costs incurred by the Department (i.e., the pension benefits earned by teachers). The difference is significant.

If the Department reported the pension costs that it actually incurred, its expenses for the year would have decreased by $22.6 million and its liabilities would have increased by $2.5 billion.

Because of using an inappropriate accounting policy, the financial reports of the Department, along with the Estimates and the General Revenue Fund's financial statements, are materially misstated. In addition, legislators and the public are unable to assess properly the pension costs actually incurred by the Department.

Management told us that Treasury Board requires the Department to conform to the established accounting policies. In addition, management continued to tell us that the issue of the appropriateness of the accounting policy is a matter that we should raise with the Department of Finance.

In its Third Report to the Legislative Assembly dated June 2002, PAC acknowledged that the Department was complying with Treasury Board's policy. And, by following that policy, PAC thinks that the Department is appropriately recording and reporting its pension costs. We disagree. We do not think Treasury Board's policy on this matter is appropriate and use of the policy results in recording and reporting improper amounts. Treasury Board also agrees that its policy does not follow generally accepted accounting principles.[5]

We continue to recommend that the Department work with Treasury Board to adopt an appropriate accounting policy that properly reports the Department's pension costs.

Better reporting on performance by school divisions needed

The Department continues to collect information from school divisions as part of the provincial indicators program. It uses this information to prepare the Saskatchewan Education Indicators reports and other publications (e.g., *SAIP Mathematics III Assessment 2001*). The Indicator reports focus on the progress of the K-12 education system as a whole

[5] Note 1 of the *Public Accounts 2001-2002: Volume 1: Main Financial Statements*, General Revenue Fund financial statements states, "these financial statements are prepared in accordance with the generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accounts, with the following exception: … pension liabilities are not recorded in the financial statements. The General Revenue Fund accounts for pension obligations on a cash basis."

towards achievement of the Goals of Education. The Department generally publishes these reports every two years. It expects to publish the next report in the winter of 2002. These reports are available at http://www.sasked.gov.sk.ca/k/pecs/ae/indicators.html.

In addition, the Department participates in the school assessment indicators program (SAIP). SAIP is a cyclical program of pan-Canadian assessments of student achievement in mathematics, reading, writing, and science that has been conducted by Councils of Ministers of Education of Canada (CMEC) since 1993. CMEC publishes the results of these assessments (e.g., *SAIP Mathematics III Assessment 2001*). The Department makes them available through its web site.

In January 2002, the Department started a program to work with school divisions to improve their capacity to report on their performance.

In March 2001, PAC expressed its continued support for the following recommendation.

We continue to recommend that the Department, working with school divisions and other stakeholders, set public reporting requirements for school divisions' performance in achieving the Goals of Education.

Proper financial statements for school divisions needed

For the year ended December 2001, several school divisions piloted a new financial statement format. The Saskatchewan Association of School Business Officials (SASBO) proposed the format and the Department endorsed it. The format reflects generally accepted accounting principles as recommended by The Canadian Institute of Chartered Accountants for local governments. At the time of the audit, the Department had not yet reviewed the results of the pilot. SASBO expects the balance of the school divisions to use the new format for the year ended December 31, 2002. The Department has advised us that it expects school divisions will implement fully the new financial statement format by the Department's year ending March 31, 2003.

In March 2001, PAC expressed its continued support for the following recommendation. We continue to recommend that the Department, working with school divisions, set financial reporting requirements for school divisions consistent with those recommended by The Canadian Institute of Chartered Accountants for the public sector.

Reporting on performance - Annual Report

We previously reported that the content of the Department's annual reports needs improvement. The Department has made significant changes to the format of its 2001 Annual Report. The Department organized its report according to the Department's strategic goals and objectives. It reported its key accomplishments related to each objective.

To improve further its annual report as a performance report, future annual reports could include a description of the following:

- the key risks the Department faces;
- what the Department views as its measures of successful achievement of its strategic goals; and
- the extent to which the Department has achieved its plan including an analysis of the differences between planned and actual operational results.

Good performance reporting depends upon good planning. Management told us that it plans to strengthen future annual reports in conjunction with the changes in reporting expected by the Government's accountability initiative.

In March 2001, PAC expressed its continued support for the following recommendation. We continue to recommend that the Department continue to improve the contents of its annual reports.

Learning Resources Distribution Centre Revolving Fund

The Department of Education recommends Saskatchewan schools use specific learning resources including reference books, curriculum guides, and related print and non-print materials. The purpose of the Learning Resources Distribution Centre Revolving Fund (Fund) is to purchase, sell, and distribute these publications and materials for use in Saskatchewan schools.

Processes to value inventory need improvement

The Department needs to improve its processes to value the Fund's inventory.

To prepare financial statements, agencies need adequate processes to value their inventory. They must assess the condition of the inventory (e.g., damaged) and estimate its resale value by considering key operating factors such as, impact of condition on ability to sell, amount on hand compared to anticipated demand, and changes in expected operations.

At March 31, 2002, the Fund had inventory of $1.7 million. The Fund's inventory represents 82% of its total assets.

During 2001-02, the Department decided to phase out certain activities of the Fund over the next year. As a part of this decision, the Department decided that it would need to sell certain inventory below its cost.

When the Department prepared its financial statements for audit, it did not fully consider the impact of this decision on the value of its inventory. During the audit, we brought this matter to the Department's attention. The Department corrected its records and reduced the value of its inventory in its final financial statements.

1. We recommend that the Department's inventory valuation processes include the impact of its key operational decisions.

More timely financial statements required

The Tabling of Documents Act, 1991 sets out the required time frames for the tabling of financial statements in the Legislative Assembly. The timeframes for tabling financial statements under this Act are decreasing.

Under the Act, the Department was required to table the Fund's financial statements for the year ended March 31, 2001 by September 27, 2001. It tabled these financial statements on November 29, 2001. The Department was required to table the Fund's financial statements for the year ended March 31, 2002 by August 28, 2002. It tabled these financial statements on October 23, 2002.

Timely tabling ensures the legislators and public receive useful information.

2. We recommend that the Department ensure that it provides the Learning Resources Distribution Centre Revolving Fund's financial statements to the Legislative Assembly by the date required by law.

Saskatchewan Correspondence School Revolving Fund

The purpose of the Saskatchewan Correspondence School Revolving Fund is to provide educational services at the high school level, Grades 9-12, to Saskatchewan residents through distance education.

More timely financial statements required

Under *the Tabling of Documents Act, 1991,* the Department was required to table the Fund's financial statements for the year ended March 31, 2001 by September 27, 2001. It tabled these financial statements on November 29, 2001.

3. We recommend that the Department ensure that it provides the Saskatchewan Correspondence School Revolving Fund's financial statements to the Legislative Assembly by the date required by law.

Teachers' Superannuation Commission

The Teachers' Superannuation Commission operates under the authority of *The Teachers Superannuation and Disability Benefits Act*. The Commission consists of seven members appointed by the Lieutenant Governor in Council. The Commission's primary roles are to:

- provide lifetime retirement and related benefits to teachers; and
- assist the Government in its responsibility for ensuring that there is sufficient money in the Teachers' Superannuation Fund to pay all allowances and other amounts out of the Teachers' Superannuation Fund as they become due and payable.

The Commission manages the Teachers' Superannuation Plan. The Plan consists of the Teachers' Superannuation Fund, a defined benefit final average pension plan, and the Voluntary Contributions Fund.

In 2001-02, the Plan received contributions of $18.3 million from teachers and $53.3 million from the Minister of Finance. At June 30, 2002, the Plan held assets of $1.7 billion and had liabilities of $3.6 billion.

Verification of investment manager's compliance reports

The Commission needs adequate rules and procedures to ensure that the Plan's investments comply with the law and the Plan's investment objectives.

The Commission is responsible to ensure that its investments comply with the law and the Plan's investment objectives. *The Pension Benefits Act, 1992* (Act) sets out the investment requirements that pension plans must follow. Pension plans sometimes contract with investment managers to make investment decisions. Pension plans must ensure that their investment managers comply with the requirements of the plans' investment objectives and with the law. Pension plans can do this by independent verification of the investment managers' compliance reports.

The Commission's contract with the Plan's investment manager requires the manager to ensure that the Plan's investments comply with the law and the Plan's investment objectives. Quarterly, the Commission receives an investment compliance report from the investment manager.

The Commission has established a policy requiring management to verify partially the compliance report received from the investment manager. The policy requires management to verify compliance relating to securities held directly (e.g. bonds and equities). The policy does not require management to verify the compliance report relating to investments in pooled funds. The Commission held $231 million in pooled funds at June 30, 2002.

To ensure that all investments comply with the law and the Plan's investment objectives, the Commission should revise its policy to require the verification of the compliance report for all of its investments. Alternatively, the Commission could receive periodic independent assurance on the adequacy of the systems and practices that the investment manager uses.

Because the Commission does not have a policy to verify the compliance reports for all investments, we cannot determine if the Commission's investments complied with the law and the Plan's established investment objectives through out the year.

4. We recommend that the Commission establish processes to ensure that the Plan's investments in pooled funds comply with the requirements of the law and its investment objectives.

Management told us that it plans to seek regular independent verification of the Plan's entire portfolio to ensure that it complies with the law and the Plan's investment objectives.

Following up curriculum evaluation reports

11B

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Introduction

Our Office worked with the Department to identify areas where ineffective action could limit the Department's ability to carry out its mandate. One of the areas we identified is *ensuring the provincial curriculum reflects the knowledge and skills that people need.* In this section, we report on an area related to this key risk—how the Department responds to evaluations of its curriculum.

The Department is responsible for the overall quality of the Saskatchewan's Kindergarten to Grade 12 System. It is also responsible for developing and maintaining the provincial curriculum. The provincial curriculum provides guidance on what students are to learn and when. The Department works with school divisions to implement the curriculum. That means that the Department and school divisions work together to help educators use the curriculum to assist students in achieving the goals of education.

Evaluating curriculum implementation

One way the Department gathers information about the extent to which the curriculum is implemented in the schools is through formal evaluations. These evaluations collect key information on the use of the curriculum. They provide information about classroom and school practices. They help identify supports and barriers to using the curriculum. The Department uses these evaluations to guide decisions about revising the curriculum and promoting the use of the curriculum in all schools.[1]

The Department has conducted the following curriculum evaluations:

- Science, Grades 1-5 (published in 1994);
- Health, Grades 7-9 (1996);
- Social Studies, Grades 7-9 (1996);
- Arts Education, Grades 1-9 (1998);
- English Language Arts, Grades 1-5 (1999); and
- Math, Grades 1-12 (in progress for 2003).

[1] Saskatchewan Education, *Arts Education Grades 1-9 Curriculum Evaluation Report*, p. iv.

The Department recognizes that the input and support of its partners is critical to the successful implementation of the curriculum. During the evaluation process and prior to publication of the evaluation reports, the Department brings together representatives of its partners to consider and agree on proposed recommendations. See Exhibit 1 for a list of the Department's partners.

Exhibit 1

Education partners involved in considering curriculum evaluation reports:

- Department of Learning;
- Gabriel Dumont Institute;
- League of Educational Administrators, Directors and Superintendents;
- Saskatchewan Association of School Councils;
- Saskatchewan Chamber of Commerce;
- Saskatchewan Indian Federated College;
- Saskatchewan School Trustees Association;
- Saskatchewan Teachers' Federation;
- University of Regina; and
- University of Saskatchewan.

The Department publishes its evaluation reports and distributes them to its partners. Most reports are available on the Internet at www.sasked.gov.sk.ca/k/pecs/ae/pub.html.

The completed curriculum evaluation reports listed above contain approximately 125 recommendations that respond to concerns described in the reports. These recommendations vary considerably. Some recommendations are general in nature, while others are specific. Some recommendations are directed at the Department, while others are directed at other participants in the education system, such as principals, teachers, and school divisions.

Most of the recommendations fit into four main themes:

1. Curriculum revision (e.g., align objectives, revise curriculum guide, shorten curriculum);

2. Training and professional development for teachers;
3. Instructional methods (e.g., ideas teachers can use in the classroom); and
4. Supports and resources (e.g., provide adequate funding; assign resource persons; provide instructional materials).

It is important that the Department and its partners follow up on the recommendations in the curriculum evaluation reports. The curriculum evaluations provide key information about how educators use the curriculum. The recommendations propose steps that the Department and its partners should take to improve the use of the curriculum. By responding to the concerns and taking action on the recommendations, the Department and its partners will improve the curriculum and how it is used.

The Department's role in following up on recommendations includes deciding on priorities, taking actions itself, and coordinating the actions of partners. In addition, the Department's role includes monitoring and reporting progress on recommendations.

Audit objective and criteria

The objective of our audit was to assess whether the Department adequately follows up on recommendations in curriculum evaluation reports.

To adequately follow up on the recommendations in curriculum evaluation reports, the Department needs to regularly:

- assess the continued relevance of recommendations;
- coordinate partner response to recommendations;
- monitor action taken in response to recommendations; and
- report progress on recommendations.

The criteria are listed in more detail in Exhibit 2. The Department agreed with these criteria.

To carry out the audit, we focused on the Department's processes to follow up on the recommendations contained in three curriculum evaluation reports from the publication date of each report to June 2002. The three reports are:

- Science, Grades 1-5 (1994);
- Arts Education, Grades 1-9 (1998); and
- English Language Arts, Grades 1-5 (1999).

We examined follow-up activities as reflected in planning and decision documents, committees' terms of reference, minutes, reports, and job descriptions. We also interviewed key officials of the Department.

We followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

Exhibit 2

Detailed audit criteria

To adequately follow up on the recommendations in curriculum evaluation reports, the Department needs to regularly:

- assess the continued relevance of recommendations
  - -consider the time period during which recommendations remain useful
  - -assess the usefulness of implementing recommendations
  - -evaluate cost-effectiveness of implementing recommendations
- coordinate partners' responses to recommendations
  - -confirm responsibility for action
  - -identify and remove barriers to action
  - -agree on recommendations that will not be implemented
- monitor action taken in response to recommendations
  - -obtain reports of action taken (what, when)
  - -obtain partners' plans for further action (what, when)
  - -evaluate adequacy of actions and plans (assess progress)
- report progress on recommendations
  - -list status of recommendations
  - -summarize actions taken
  - -describe impact of actions taken
  - -recommend plans for further action or evaluation

Audit conclusion and recommendation

The Department uses three main systems to follow up on recommendations made in curriculum evaluation reports. These systems guide the Department's collaboration and consultation with its partners.

The first system is the Department's committee structure. The Department makes extensive use of committees that involve the Department's partners. The committees advise the Department in its curriculum and evaluation activities. The Department restructured its committees in the fall of 2002 and continues to work closely with its partners.

The second system involves Department employees who are responsible for liaison with educators and administrators—the Regional Superintendents of Curriculum and Instruction. The Department employs these experienced educators to liaise with educators and administrators in school divisions.

The third system is the curriculum renewal process. This is also a collaborative process (see our discussion in the 2001 Spring Report, Chapter 4B). The Department works with its partners to maintain the relevance of the curriculum.

The Department follows up on curriculum evaluation recommendations through many activities that take place within these three systems. However, this follow-up is at a general level, and relates to the main themes arising out of the recommendations. The Department does not have processes to monitor and report progress on specific recommendations. Because of this, some recommendations may not receive sufficient attention.

We conclude that the Department adequately followed up on recommendations in curriculum evaluation reports except that its monitoring of action and reporting of progress did not extend to specific recommendations.

1. **We recommend that the Department establish processes to monitor action taken and report progress achieved in relation to specific curriculum evaluation recommendations.**

Key findings by criteria

In this section, we set out our expectations (in italics) for each of the criteria, together with our key findings.

Assessing continued relevance

Our expectation was that the Department would regularly assess whether recommendations continued to be relevant. It would assess the usefulness of acting on recommendations and the time period during which recommendations remained useful. It would also consider the cost-effectiveness of acting on recommendations.

The Department assesses the continued relevance of curriculum evaluation recommendations through the work of its employees (primarily the Regional Superintendents of Curriculum and Instruction). The Regional Superintendents consider the time period that recommendations remain useful. They assess which recommendations relate to the Department's current priorities and are achievable within available resources.

The Department also assesses the continued relevance of recommendations within its system for renewing the curriculum. The Department assembles teams to advise on changes to areas within each curriculum. These teams include the Department's partners. The teams consider whether the recommendations that relate to the area they are revising continue to be relevant.

The Department considers the most cost-effective way of acting on recommendations. The Department consults with its partners regarding alternatives. For example, the Regional Superintendents of Curriculum and Instruction consider the costs and benefits of recommendations each year in the context of Department priorities. They help decide, in consultation with partners, what action on recommendations is most useful and affordable.

Coordinating partners' responses

Our expectation was that the Department would regularly work with its partners to coordinate the partners' response to recommendations in *curriculum evaluation reports. It would do this by confirming which partners would be needed to complete action on recommendations. In addition, it would identify barriers to action on recommendations, and would take steps to manage or remove those barriers. Also, the Department would agree with its partners on recommendations that would not be implemented.*

The curriculum evaluation reports usually assign responsibility for action on specific recommendations. The Department uses regular contact with its partners to confirm continued partner responsibility. This contact is primarily through the committees that oversee curriculum and evaluation activities. It also takes place through the work and documents of the Regional Superintendents of Curriculum and Instruction, who are responsible for liaison with specific partners.

In addition, the Department develops action plans for its own areas of responsibility. In committee meetings, the Department and its partners share their action plans with each other.

Through regular contact with its partners, the Department actively identifies and removes barriers to action on recommendations. For example, through the committee system, the Department and its partners consistently meet to consider barriers to action and to plan ways to overcome those barriers. The Regional Superintendents of Curriculum and Instruction also work with partners to help address barriers. The processes that the Department follows to renew the curriculum also require the Department to work with partners to remove barriers.

As part of its curriculum renewal processes, the Department considers whether recommendations should be implemented. In addition, the Regional Superintendents of Curriculum and Instruction work with partners to consider the appropriate time for action.

Monitoring action taken

Our expectation was that the Department would regularly monitor action taken in response to curriculum evaluation recommendations through reports from partners. It would also obtain partners' plans for future action. In addition, it would evaluate whether the actions taken on *recommendations were adequate to resolve the concerns described in the evaluation reports.*

The Department regularly obtains reports from partners on action taken in response to the main areas or themes arising from the recommendations. It does this through its regular committee meetings with partners. In addition, the Department's Regional Superintendents of Curriculum and Instruction obtain information through their own meetings with the administrators of school divisions.

The Department also obtains its partners' plans for further action relevant to the main themes of the recommendations. The Department and its partners exchange planning documents. The Department obtains plans for action through meetings at committees and at various other levels. The Regional Superintendents of Curriculum and Instruction also obtain information about planned action through meetings and site visits. The Department uses the information it receives to assess progress related to the themes of the recommendations.

Through these activities, the Department monitors action taken in response to recommendations. However, it does so at a general level. The reports and information that the Department obtains relate to the main themes arising out of the recommendations, rather than to specific recommendations. By not monitoring action on specific recommendations, important recommendations may not receive sufficient attention. Consequently, the Department and its partners may miss the opportunity to resolve the concerns that gave rise to the recommendations.

Reporting progress

Our expectation was that the Department would regularly report progress achieved on curriculum evaluation recommendations. It would list the status of recommendations to allow the Department and its partners to identify which recommendations were outstanding. It would summarize actions taken and describe the impact of the actions taken. In addition, the Department's report on progress would include recommended plans for further action or evaluations.

The Department regularly reports on actions taken relevant to the themes arising out of the recommendations. It shares information with its partners using the systems that it has set up for collaborating and consulting with its partners. These systems include its committee structure and the work of the Regional Superintendents of Curriculum and Instruction. However as with their monitoring, the Department's communications are not at the level of the specific recommendations.

The Department describes the impact of actions taken through documents that are shared with its partners and with the public. For example, the "Curriculum Update" of the Regional Superintendents of Curriculum and Instruction, and the Department's *Education Indicators Reports* provide information about the impact of actions relevant to the main themes of the recommendations. The *Education Indicator Reports* are issued to the public about every two years.

Finally, the Department communicates plans for further action or evaluations. The Department shares its formal action plans with its partners and consistently uses its committee system to consult with partners regarding plans for further action.

The Department regularly reports progress relevant to the general themes arising out of the recommendations, but it does not report progress at the level of specific recommendations. The Department does not have processes to list the status of individual recommendations.

Moreover, we found that the Department has not explicitly assigned the task of tracking and reporting action on recommendations. The Department should do so. It should track and report the status of individual recommendations (in addition to the larger themes arising out of the recommendations). This will assist the Department's partners and the public to understand what action has been taken on curriculum recommendations and what remains outstanding. This will also help the Department ensure that all key recommendations are acted upon.

By taking action on the recommendations, the Department and its partners improve the curriculum and improve how the curriculum is used. This helps ensure that the curriculum is doing what it is intended to do—assist students to achieve the goals of education.

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Post-Secondary Education and Skills Training

12

Executive summary

In this chapter, we continue to stress the importance of the public receiving good information on what the Department, its agencies, and funds plan to do and the extent to which they are achieving their plans.

We note progress and the need for further work. The Department had taken the lead and successfully worked with others in the post-secondary sector to develop a five-year sector strategic plan. In late 2001, Cabinet approved this Plan. During 2001-2002, the Department continued to work with key agencies, such as the universities and SIAST, to better define how they are accountable to the Department and for what. In addition, it worked with these key agencies on the processes to implement the Sector Plan.

At March 31, 2002, this important work was still in progress. Effective April 1, 2002, Cabinet discontinued the Department of Post-Secondary Education and Skills Training. It amalgamated the Department's post-secondary education, training, and student support programs and activities with the Department of Education to form the Department of Learning. The Department of Social Services assumed responsibility for the Department's employment programs, such as Work Placement and Community Works. We recognize that with the restructure, certain aspects of the Sector Plan may change. Regardless, we look forward to the Department of Learning continuing to move the post-secondary sector forward towards publicly reporting on the achievement of the sector strategic plan.

In June 2001, the Department and the Federal Government agreed to integrate the Canada and Saskatchewan student loans programs. The agreement requires the Federal Government to process loans and pay money to students. At March 31, 2002, the Department did not have sufficient procedures to ensure that the Federal Government processed loans and paid students accurately. In addition, we continue to report that the Department does not verify all critical information on student loan applications. As a result, students may receive more money than the law allows.

Introduction

In this chapter, we set out:

- a brief overview of the Department of Post-Secondary Education and Skills Training's role, goals and its key risks; and
- the results of our 2002 audit of the Department and the various funds and agencies for which it is responsible.

Understanding the Department

It is important that legislators and the public understand the role of the Department, its risks, and the key control systems needed to manage those risks. This helps them to assess better the Department's performance.

Role of the Department and its goals

The Department was continued under *The Department of Post-Secondary Education and Skills Training Act, 2001*. This Act came into effect on September 1, 2001.

The Department had overall responsibility for the post-secondary education and skills training system. The post-secondary system includes universities, regional colleges, SIAST, other private and federal vocational schools, the Apprenticeship and Trade Certification Commission, and the career and employment services. The system also includes student financial assistance programs like student loans and bursaries.

The responsibilities of the Department included:

- developing and implementing quality training and employment programs;
- developing and implementing policies for post-secondary education and skills training;

- advancing the goals of the sector by working collaboratively with key members of the sector;
- overseeing the development and operations of the provincial network of Canada-Saskatchewan Career and Employment Services;
- regulating the operation of private vocational schools; and
- administering post-secondary student assistance (e.g., loans, grants, bursaries).

Related special purpose funds and agencies

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

	Year end
Student Aid Fund	March 31
Training Completions Fund	March 31
Saskatchewan Communications Network Corporation (SCN)	March 31
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Saskatchewan Apprenticeship and Trade Certification Commission (SATCC)	June 30
Saskatchewan Institute of Applied Science and Technology (SIAST)	June 30
Southeast Regional College	June 30
University of Regina	April 30
University of Saskatchewan	April 30

Department spending

In 2002, the Department received $508.9 million (2001 - $528.4 million) from the General Revenue Fund and spent this money on its programs. Also, the Department raised $55.2 million (2001 - $55.1 million) of revenue. Of these revenues, 98% (2001 - 97%) are from the Federal Government. *The Public Accounts 2001-2002: Volume 2: Details of Revenue and Expenditure* (2001-2002 Public Accounts – Volume 2) reports information about the Department's revenue and expenses (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts).

The following is a list of major programs and spending reported in the 2001-2002 Public Accounts – Volume 2:

	Original Estimates	Actual
	(In millions of dollars)	
Administration	$ 3.6	$ 3.8
Accommodation & central services	4.7	4.0
Saskatchewan Communications Network	7.5	7.5
Career and employment services	32.1	33.5
Training programs	49.9	47.5
Student support	73.3	71.1
Post-secondary education	340.4	341.5
	$ 511.5	$ 508.9

Each special purpose fund and regional college gives the Legislative Assembly (Assembly) separate financial statements each year. Each agency, other than regional colleges, also give the Assembly an annual report each year that contains its audited financial statements.

The following table summarizes the revenues and assets held by the special purpose funds and agencies. The revenues include money provided by the Department.

Table 1

Fund or agency	2002 Total revenues	2001 Total revenues	2002 Total assets held	2001 Total assets held
	(Actual in millions of dollars)			
Regional Colleges (combined)	$ 45.7	$ 46.8	$ 27.8	$ 26.4
SATCC	9.8	12.2	1.0	1.0
SCN	8.4	8.0	2.7	2.1
SIAST	131.8	129.4	43.8	51.4
Student Aid Fund	35.3	46.1	99.3	62.2
Training Completions Fund	0.08	0.09	0.4	0.3
University of Regina	132.0	125.0	186.5	176.0
University of Saskatchewan	522.0	505.0	933.0	818.0

Source: audited financial statements

For the year ended April 30, 2002, $62 million (2001 - $65 million) of the University of Regina's revenues came from the Department and $239 million (2001 - $244 million) of the University of Saskatchewan's revenues came from primarily the Department and the Department of Health.

For the year ended June 30, 2002, $91.8 million (2001 - $90.2 million) of SIAST's revenues came from the Department and $9.6 million (2001 - $9.1 million) of SATCC's revenues came from the Department.

Effective April 1, 2002, most of the Department was amalgamated with the Department of Education to form the Department of Learning.

Risks the Department faced

The environment in which the Department and post-secondary institutions operate is changing. These changes presented the Department with risks and opportunities.

To be successful, the Department needed to:

- coordinate the efforts of the key post-secondary institutions to deliver post-secondary education and skills training effectively and efficiently;
- ensure post-secondary education and skills training responds to the needs of the public and of employers; and
- ensure reasonable access to quality education and training opportunities.

The Department, working with others in the post-secondary sector, had developed a five-year strategic plan for the sector that includes four broad goals[1]:

- The province has a sustainable high quality post-secondary education, training, and employment services sector.
- The sector meets the needs of individuals and communities.
- The sector meets the needs of employers and industry, and contributes to economic growth.
- The sector contributes to the discovery, integration, application, and transfer of knowledge.

We encourage legislators and the public to obtain more detailed information about the Department. Publications are available from the Department or on the Internet at http://www.sasked.gov.sk.ca/P/succeed/info/special.html.

For further discussion of the Department's role, goals, risks, and opportunities, see Chapter 4 of our 1998 Fall Report – Volume 2.

Audit conclusions and findings

In this chapter, we report the audit conclusions and findings for the 2002 audits of the Department, SATCC, SCN, and SIAST, its two funds – Student Aid Fund and Training Completions Fund, and of three of its eight regional colleges – North West, Parkland, and Southeast.

For SIAST, our Office carries out the audit jointly with KPMG LLP. We also worked with the appointed auditors of the following colleges and

[1] *A Progress Report on University Revitalization*, Department of Post-Secondary Education and Skills Training, November 2001.

SCN using 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).

Crown agency	Appointed auditor
SCN	Virtus Group Chartered Accountants & Business Advisors LLP
North West Regional College	Downie Johnson Svenkeson, Chartered Accountants
Parkland Regional College	Skilnick Robertson Besler Miller & Co., Chartered Accountants
Southeast Regional College	EPR Certified General Accountants

Since1998-99, we audit regional colleges on a cyclical basis. Exhibit 1 sets out our current involvement and its basis.

Exhibit 1 – Audit involvement in regional colleges

Based on the following factors, we work more directly with three colleges and their auditors on a cyclical basis each year. The factors are that:

- the colleges generally operate in a common environment and face similar issues.
- we have had few disagreements with the government-appointed auditors in the audits of the colleges.
- the financial accounting control systems at each college have improved over time.
- the Department helps the colleges strengthen their financial planning and reporting systems. This includes active involvement with the colleges in the implementation of the Saskatchewan Training Strategy, including the development of an accountability framework.

Also, we continue to require all College-appointed auditors to provide us with their reports. We review these reports to determine if new significant matters are identified for that College. If so, we work with the related appointed auditor on these matters.

In 2002, we worked more directly with North West, Parkland, and Southeast regional colleges. In 2002, the auditors of the other colleges did not report any new matters for the colleges that they audited.

In our opinion:

- **the 2002 financial statements of ATCC, SCN, SIAST, Student Aid Fund, Training Completion Fund, and of North West, Parkland, and Southeast Regional Colleges are reliable;**

- **the Department and the above agencies had adequate rules and procedures to safeguard and control their assets except for the matters reported otherwise in this chapter;**

- **the Department and the above agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter reported otherwise in this chapter.**

Detailed findings for the Department

In this section, we identify key activities that the Department has undertaken to move towards compliance with three previously reported recommendations for improvement that are of continued relevance. The Standing Committee on Public Accounts has previously discussed and agreed with these recommendations.

Clarifying accountability relationships

The post-secondary system is comprised of many different agencies. A number of the key post-secondary institutions are funded primarily through public money. It continues to be important that the legislators and public understand who is responsible for what within this system and that the Department fulfils its role in helping hold these institutions accountable.

The Department published various reports and publications (e.g., *Saskatchewan Training Strategy, Public Interest & Revitalization of Saskatchewan's Universities*) that highlight the Department's responsibility to ensure that the key institutions are accountable for the moneys and privileges granted to them. It also highlights that the success of these institutions is integral to the success of the post-secondary system.

We note that the Department's continued sector-wide planning activities included work on clarifying key accountability relationships. In addition during the year, the Department published a progress report on its and the universities' key accomplishments in response to the 1996 MacKay *Report of the Minister's Special Representative on University Revitalization*. One stated purpose of the progress report was "To contribute to public understanding of the roles of the universities in Saskatchewan.[2]"

Although the Department has made progress, further work is still necessary. We continue to recommend that legislators and the public receive a clear concise description of the accountability relationships between the Department and the key provincial post-secondary institutions.

Developing a sector-wide plan and reporting on performance

In late 2001, the Cabinet approved a five-year strategic plan for the post-secondary sector called the Post-Secondary Education and Skills Training Sector Strategic Plan. Although the Department has not publicly released the details of this Plan, it has included the Plan's goals in recent publications (e.g., *A Progress Report on University Revitalization*).

Also during 2001-2002, the Department continued to work with those in the sector to set processes to implement the Sector Plan. It clearly expects key provincial post-secondary institutions such as the universities, SIAST, regional colleges, and SATCC to assist in meeting this Plan.

Department officials advised us that the amalgamation of the Department with the Department of Education to form the Department of Learning effective April 1, 2002 may result in revisions to the Plan. The Department expects to report publicly on its progress in achieving this Plan when the

[2] *A Progress Report on University Revitalization*, Department of Post-Secondary Education and Skills Training, November 2001.

Government decides to change public performance reporting as part of the Government's accountability initiative.

We continue to recommend that the Department have Cabinet approve a post-secondary sector-wide plan and report publicly against the approved plan.

Improving annual reports (performance reporting)

We reviewed the Department's 2000-2001 annual report. We assessed the adequacy of the information contained in the report against the principles for performance reporting set out in Chapter 1–*Towards a better public accountability system* of our 2000 Spring Report. We note further improvements are necessary.

To assess performance of a public agency, legislators and the public need adequate information about the agency's plans and the achievement of those plans. Annual reports can provide this information. Annual reports should describe the public agency's mission, goals, and objectives. Also, they should describe how well the public agency has performed in achieving its objectives. In addition, annual reports should be written clearly and be available promptly after the agency's year end.

The 2000-2001 annual report outlines the vision, goals, and objectives of the Department and describes its related activities. Future reports should:

- Set out what the Department achieved in the year. For example, the report could include a comparison of key performance measures and targets to actual results and explain significant differences.
- Describe the key risks that the Department faces in achieving its objectives as well as the actions it takes to reduce these risks to acceptable levels.
- Explain management's responsibility for the adequacy of controls to safeguard and control the Department's resources and to comply with legislation and other authorities. As well, the reports should state management's responsibility for the financial information presented in the reports.
- Include key financial information (e.g., financial statements).

We continue to recommend the Department improve its future annual reports. The Department of Learning expects to make further changes to annual reports on the post-secondary sector in concert with changes expected for public performance reporting as part of the Government's accountability initiative.

Detailed findings for the Student Aid Fund

The Department uses the Student Aid Fund to help students finance their education. It provides students with grants, bursaries, and loans in combination with Canada Student Loans.

During 2001-2002, the Department changed the student assistance program significantly. In June 2001, the Department agreed with the Federal Government to integrate the Canada and Saskatchewan student loans programs. As part of the integration, the Department introduced three new student assistance benefits: Enhanced Interest Relief, Permanent Disability, and Debt Reduction in Repayment. Also during the year, the Department began lending money to students because its agreement with the Royal Bank expired (previously the Royal Bank financed student loans).

These changes to the program required a significant amount of effort by the Department. This included working closely with the Federal Government to agree on how to integrate the programs and to set out the responsibilities of both parties. In addition, the resulting changes made it necessary for the Department to change how it controls, accounts for, and reports its financial activities regarding the student assistance program.

In 2002, the Fund had revenues of $35.3 million including $31.8 million from the General Revenue Fund and had expenditures of $44.1 million. At March 31, 2002, the Fund held net assets of $16.7 million.

In this section, we provide an update on the status of two previous recommendations and make one new recommendation.

Verifying critical information

The Department needs to verify critical information on student loans applications.

Verifying critical information on student loan applications ensures that only eligible students receive aid in the correct amounts. The Department must balance its costs to verify applicant information with the need to provide students with timely financial assistance.

The Department does not yet verify all critical information on student loan applications. By not verifying all critical information, the Department may incur unnecessary costs and may not comply with the law.

During 2001-2002, the Department approved approximately 18,000 student loans (2001 - 17,000 loans) for approximately $60 million (2001 - $59 million). In addition, during the year, the Department paid debt reduction benefits to students and incurred other costs of $35 million (2001 - $39 million). Debt reduction benefits and other costs depend on the amount of loans awarded to students. When the Department approves loans to students in excess of the amounts to which they are entitled, debt reduction benefits and other costs also increase.

The Department must decide which applicant information to verify before approving loans and which information to verify at a later date. Sufficient and timely verification of critical information reduces the Department's risk of incurring significant additional costs and of not complying with the provisions of *The Lender-Financed Saskatchewan Student Loans Regulations, The Saskatchewan Student Direct Loan Regulations, The Student Assistance and Student Aid Fund Regulations, 1990, or The Student Assistance and Student Aid Fund Regulations, 2001*.

In addition, during 2001-2002, the Department adopted a new program for permanent disability benefits. Under this program, the Department pays benefits to students with loans if those students became disabled while attending school or within six months of completing school. During the year, the Department paid disability benefits of $724,000. We found that the Department did not adequately verify eligibility for benefits for this program. The Department paid benefits to all students that the Federal Government indicated had received permanent disability benefits under the Federal program. The Department did not carry out additional procedures to verify that the students listed by the Federal Government met the eligibility criteria for the benefit.

Critical information which the Department does not yet sufficiently verify includes information on: the number of dependants, single parent status, receipt of daycare allowances, amount of scholarship funds, the value and existence of vehicles, residency of applicant, and amount of permanent disability benefits.

Because the Department does not yet sufficiently verify the above information and it is not practicable for us to do so, we are unable to report the extent to which students received incorrect amounts of aid.

We continue to recommend that the Department verify critical information on student loan applications.

We have reported this matter for several years. In March 2001, the Standing Committee on Public Accounts (PAC) concurred with the above recommendation. PAC previously concurred with the same recommendation in April 1999 and in December 1996.

The Department advised us that it continues to take steps to verify additional application information. We note that the Department is currently developing a new computer system. The Department informs us that this system will link with systems at the Canada Customs and Revenue Agency to verify parental income and with Saskatchewan Government Insurance to ensure that students correctly report their vehicles.

Financial reporting to Trustees

The Trustees of the Fund need timely quarterly financial reports.

The Trustees are responsible for administering the Fund. This includes overseeing the operation of the student assistance programs. To do this effectively, the Trustees should periodically review the Fund's financial and operational results. Periodic reviews of results help to ensure the identification of issues and appropriate corrective action in a timely manner.

During the 2001-2002, the Department did not provide timely quarterly financial reports to the Trustees for their review. Trustees received quarterly financial reports three or four months after the period to which they related. We reported this matter in Chapter 15 of our 2001 Fall Report – Volume 2. In February 2002, the Standing Committee on Public Accounts concurred with our recommendation.

We continue to recommend that the Department provide the Trustees with timely quarterly financial statements.

Loan processing and distribution

The Department needs to ensure that student loans are awarded only to eligible students and in the correct amounts.

The Department is responsible for assessing the amount of loans to award to students. Under the integrated loan agreement, the Federal Government processes the loans and pays the students. The Federal Government engaged two service providers to carry out these responsibilities. The Federal Government engaged an independent auditor to provide it with assurance (i.e., audit opinion) on whether the service providers had adequate internal controls to satisfy specified internal control objectives over loan processing. The Federal Government agreed to share the results of the audit with the Department.

In 2002, the auditor reported that one of the service providers did not have adequate controls to ensure all approved loans were processed accurately, completely, and only once. This service provider handled approximately $5.9 million of student loans. To assess the extent that the Federal Government properly processed the loans, the Department monitored student inquiries and concluded that the loans had been properly processed for 2001-2002.

If in future years, this service provider continues to operate without adequate controls to ensure that all approved loans are processed accurately, completely, and only once, the Department is exposed to the risk that the service provider may pay ineligible students and that incorrect amounts of money could be paid to eligible students. To reduce this risk, the Department should require the service provider to improve its processes. Until the Department has evidence that the service provider has improved its processes, the Department should carry out procedures to ensure students are paid correctly.

1. We recommend that the Department ensure that loans are awarded only to approved students and in the correct amounts.

Detailed findings for the Regional Colleges

In this section, we set out our findings related to the audits of North West, Parkland, and Southeast Regional Colleges. We note that the appointed auditors of other colleges report similar findings.

Improving performance management and reporting

Since 1996, our Office has reported on the boards' need for better performance information. In February 1998, the Standing Committee on Public Accounts concurred with our recommendation. We continue to recommend that the colleges improve the performance reports used by the boards of directors to monitor the colleges' performance. We note that North West, Parkland, and Southeast Regional Colleges need to continue to improve how they measure and report on their performance.

To measure and report on performance, the Colleges must set performance measures and targets for each of their objectives. These measures and targets should quantify what the Colleges expect to achieve and when. Once the Colleges have set these measures and targets, they should ensure they have adequate systems to track their performance against the targets. They should also report their results to their boards, the Department, the Legislative Assembly, and the public. These performance reports should show a comparison of the targets to the actual results and explain any significant differences.

During the year, the Colleges worked with the Department to revise their business plans to include key performance measures. They also are in the process of revising the contents of future annual reports to improve reporting on performance including reporting on progress made on the post-secondary education sector plan.

Detailed findings for the Saskatchewan Communications Network Corporation

The Saskatchewan Communications Network Corporation (SCN) operates under the authority of *The Communications Network Corporation Act*. Through its interrelated networks, SCN provides the people of Saskatchewan with educational, informational, and cultural programming and training opportunities.

As set out in table 1, SCN's 2002 financial statements show that SCN had revenues of $8.4 million and held assets of $2.7 million.

Annual report needs improvement

SCN's annual report needs improvement.

We assessed the adequacy of the information in SCN's 2002 Annual Report against the principles for performance reporting that we set out in Chapter 1 – *Towards a better public accountability system* of our 2000 Spring Report.

To assess the performance of public sector agencies, legislators and the public need adequate information about the agency's plans and the achievement of those plans. An annual report should provide this information. Annual reports should describe the agency's mission, vision, goals and objectives, as well as how it has performed in achieving its objectives. In addition, annual reports should set out the key risks the agency faces in achieving its objectives.

SCN's 2002 Annual Report provides some of the information that annual reports should include. For example, it outlines SCN's goals and describes many activities it has carried out. Also, the Report contains a complete set of audited financial statements prepared in accordance with Canadian generally accepted accounting principles. However, further improvements are needed. SCN's future annual reports should:

- include a description of its mission, vision, objectives, and the key strategies used to achieve its objectives.

The Report does not include SCN's objectives related to its reported goals or the actions planned to achieve them. It would be easier to understand SCN's plan if the Report discussed its objectives and clearly linked its planned actions to the goals and objectives.

- explain how the corporation has performed.

  The Report lists accomplishments, but does not indicate the extent to which the goals were achieved. This makes it difficult for readers to assess performance (operational and financial). Including a comparison of its actual operational and financial results to key targets along with explanations of significant differences helps readers assess performance.

- describe the key risks that the corporation faces in achieving its objectives as well as the actions that it takes to reduce these risks to acceptable levels.

  The Report does not set out SCN's key risks.

2. We recommend that SCN improve its future annual reports.

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.

Environment and Resource Management

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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	5
Environment and Resource Management expenditures per the Government's Summary Financial Statements	$ 156

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.

	Original Estimates	Actual
	(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	2	2
	$ 130	$ 137

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)

Statement 1

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)	9,302	9,267
Total financial assets	55,966	21,416
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	4,309	2,684
Total liabilities	55,169	20,318
Net financial assets (debt) (Statement 3)	797	1,098
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)	744	547
	37,648	36,407
Accumulated surplus (Statement 2)	$ 26,445	$ 25,505

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)

	Budget	2002	2001
	(Note 11)	(in thousands of dollars)	
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		1,572	1,321
Total Revenue		205,690	184,363
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		264	213
Total operating expense		159,232	142,743
Transfers to the General Revenue Fund (Note 8)		45,518	39,871
Total Expense		204,750	182,614
Annual surplus	$	940	1,749
Accumulated surplus, beginning of year		25,505	23,756
Accumulated surplus, end of year (Statement 1)		$ 26,445	$ 25,505

(See accompanying notes to the financial statements)

Statement 3

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)

Statement 4

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 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

	2002	2001
	(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	526	257
	$9,302	$9,267

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

	Land	Buildings	Machinery & Equipment	Computers	Office Equipment & Furniture	Total 2002
			(in thousands of dollars)			
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	21,264	404	28,999	3,333	1,726	55,726
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	---	31	16,263	1,771	757	18,822
Net book value	$ 21,264	$ 373	$ 12,736	$ 1,562	$ 969	$ 36,904

** 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):

	2002	2001
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.

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	150
	$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:

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

15. Expenses By Object

	2002	2001
	(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	$ 159,232	$ 142,743

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	3,156
Total expense per Environment and Resource Management financial statements (Statement 2)	$ 159,232

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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Municipal Affairs and Housing

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Executive summary

Effective April 1, 2002, Cabinet disestablished the Department of Municipal Affairs and Housing. The Department's programs continue. Its municipal programs were amalgamated with those of the Department of Intergovernmental and Aboriginal Affairs to form the Department of Government Relations and Aboriginal Affairs. Its housing programs became the responsibility of the Department of Social Services, the provincial libraries became the responsibility of the Department of Learning, and its various public safety programs became the responsibility of the Department of Corrections and Public Safety.

For the year ended March 31, 2002, the Department paid over $140 million to various organizations. Often the Department places conditions on the use of this money. Organizations must spend the money on projects that meet the Department's conditions. During the year, we found that the Department did not have adequate procedures to ensure two payments totalling $5.7 million, met its conditions. Also, the Department recorded these payments incorrectly. We have reported similar problems in the past. In this chapter, we stress the importance of departments having procedures to ensure that monies are spent for the purposes intended.

In addition, we note no progress for the past seven years by the Saskatchewan Archives Board in obtaining an agreement with the University of Saskatchewan for the Board's accommodations and administrative and accounting services.

Introduction

In this chapter, we set out:

- a brief overview of the Department including its role, key challenges that it faces, and its finances; and

- the results of our 2002 audits of the Department, and of the special purpose fund and crown agencies for which it is responsible.

Understanding the Department

It is important that legislators and the public understand the role of the Department, the environment in which it operated, and its key challenges. This helps them assess the Department's performance.

Role of the Department

The Department was responsible for supporting and maintaining a viable system of municipal government in Saskatchewan. Its responsibilities were set out in over 50 different pieces of legislation. Its responsibilities included enabling communities to provide sustainable local governance, improve housing, provide access to public information, and protect the public.

The Department's Annual Report provided an overview of its mandate and operations. A copy of the report is available at http://www.graa.gov.sk.ca/annual_reports.htm.

Saskatchewan has an extensive system of local government. The Department worked with the over 800 municipalities, almost 300 public housing authorities, 10 public library systems, and various other agencies.

Related special purpose funds and Crown agencies

For the year ended March 31, 2002, the Department was responsible for the following special purpose funds and Crown agencies:

	Year End
Municipal Potash Tax Sharing Administration Board	December 31
Northern Revenue Sharing Trust Account	December 31
Saskatchewan Housing Corporation (Sask Housing)	December 31
Sask911 Account	March 31
Saskatchewan Archives Board	March 31
Saskatchewan Heritage Foundation	March 31
Western Development Museum	March 31

Each of these special purpose funds and agencies tables its annual report including audited financial statements in the Legislative Assembly each year.

Risks the Department faces

The Department worked to provide the legal framework, organizational support, financial assistance, and other services to meet the unique and changing needs of Saskatchewan people.

Four key economic, social, and demographic trends affect the Department and its services[1]. The key trends are a concentration of economic activity in larger urban centres; a downturn in the agricultural sector reducing the number of farmers and farm income levels; the increased pressure on roads and highways due to abandonment of rail lines and grain elevator closures; and an aging population compounded by a shift of young people from rural to urban centres leaving fewer and higher percentages of older people in rural centres. Another trend mentioned in other publications is the increasing share of property taxes for education, particularly in rural municipalities.

Challenges for each of its main areas of responsibilities (i.e., municipal, housing, and public safety) primarily relate to:

- the capacity of municipalities to deliver the necessary services (e.g., adequate roads, water systems, housing, and public safety) at a reasonable cost to the public (e.g., level of property taxes, provincial taxes, and user fees),

[1] 2000-2001 Annual Report, Department of Municipal Affairs and Housing.

- the ability of Saskatchewan residents to access quality, affordable housing, and

- the maintenance of safe and enriching communities.

Effective April 1, 2002, the Department was disestablished. Its municipal programs were amalgamated with those of the Department of Intergovernmental and Aboriginal Affairs to form the Department of Government Relations and Aboriginal Affairs. Its housing programs became the responsibility of the Department of Social Services, the provincial libraries became the responsibility of the Department of Learning, and its various public safety programs became the responsibility of the Department of Corrections and Public Safety.

Overview of the Department's finances

The Government's Summary Financial Statements include the Department's revenues and expenses. For the year ended March 31, 2002, the Department had revenues of $34.6 million. The 2002 Summary Financial Statements show "social services and assistance expenses" of $784 million of which $167 million relates to spending of the Department. The Department's remaining expenses are included in various other expense categories.

The following is a list of major programs and their spending for the year ended March 31, 2002.

	Original Estimates	Actual
	(In millions of dollars)	
Municipal Financial Assistance	$ 99.6	$ 99.0
Housing	36.3	36.0
Infrastructure projects[2]	--	11.2
Provincial Library	8.1	9.6
Heritage and Tourism Facilities	8.9	8.7
Municipal & Community Services	6.1	5.2
Public Safety	6.2	6.1
Accommodation & Central Services	3.2	3.3
Administration	2.4	2.7
	$ 170.8	$ 181.8

[2] Estimates for this spending is including in Vote 70 – Centenary Fund. Payments are made to various organizations for projects that are of provincial or regional interest and develop municipal infrastructure.

Audit conclusions and findings

This section contains our audit conclusions and findings for the 2002 audits of the Department, its special purpose fund, and crown agencies with March 31 year-ends. In Chapter 13 of our 2002 Spring Report, we provide the results of our audits of three Crown agencies for the year ended December 31, 2001.

To carry out the audit and to form the opinion below for the Sask911 Account, our Office worked with PricewaterhouseCoopers LLP, the appointed auditor for Sask911 Account. We worked together using the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors* (to view a copy of this report, see our web site at http://www.auditor.sk.ca/rrd.html).

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

- **the following financial statements are reliable:**
  - **Sask911 Account;**
  - **Saskatchewan Archives Board;**
  - **Saskatchewan Heritage Foundation; and**
  - **Western Development Museum.**

- **the Department and the above agencies had adequate rules and procedures to safeguard and control their assets except for the matters reported in this chapter; and**

- **the Department and the above agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

Department

Adequate checks needed

The Department needs to ensure that recipients of infrastructure funding meet the conditions imposed.

The Department pays money to various organizations. Often the Department places conditions on the use of this money. The organizations must spend this money on projects that meet the specific conditions. The Department must have processes to determine when these organizations meet the Department's conditions to ensure it properly records these types of payments.

Generally accepted accounting principles requires departments to record payments as an expenditure when the recipient of the money uses it for the expected purposes. Until the money is spent for the expected purposes, it should record the amount paid as an asset.

During the year, the Department paid $5 million[3] to Sask Housing for the purpose of developing social housing projects and $700 thousand to Government House Foundation for the purpose of renovating Government House. The Department did not have processes to check when these agencies meet its conditions. The Department recorded these payments as expenditures. At March 31, 2002, these agencies did not incur any expenses related to developing social housing projects or renovating Government House.

Because the agencies did not meet the conditions of these payments at March 31, 2002, the Department incorrectly recorded these payments. It has overstated its expenditures by the amount of these payments (i.e., $5.7 million) and has understated its assets by the same amount. The expenditures recorded and disclosed in the 2002 Public Accounts are overstated by this amount.

In the previous years, we have reported a similar matter relating to payments made under the provincial-municipal infrastructure program.

1. We recommend that the Department responsible improve its procedures to ensure that payments meet the conditions of the related program and it appropriately records these payments.

On April 1, 2002, Cabinet assigned the Department of Social Services the responsibility for social housing and the Department of Government

[3] This amount is in addition to $27.9 million provided to Sask Housing for its operations.

Relations and Aboriginal Affairs the responsibility for renovating Government House.

Status of previous recommendations

In this section, we set out a previously reported recommendation for improvement that is of continued relevance. In June 2001, the Standing Committee on Public Accounts considered this matter and concurred with our recommendation.

In this section, we also identified key activities that the Department has undertaken to move towards compliance with this recommendation.

Reporting on performance

We reviewed the Department's 2000-2001 annual report. We assessed the adequacy of the information contained in the report against the principles for performance reporting set out in Chapter 1 – *Towards a better public accountability system* of our 2000 Spring Report. We note improvements from prior reports, but also note further improvements are necessary.

To assess the performance of the Department, legislators and the public need adequate information about the Department's plans and the achievement of the plans. Future reports on the Department's programs should:

- ♦ Set out the key risks faced as well as the action its takes to reduce those risks to acceptable levels.
- ♦ Describe the measures of successful achievement of its strategic goals.
- ♦ Set out the achievements in the year (e.g., include a comparison of key targets to actual results and explanation of significant differences).
- ♦ Explain management's responsibility for the financial information presented in the reports and for the adequacy of controls to

safeguard and control the resources and to comply with the law and other key authorities.

- Include key financial information (e.g., financial statements).

Saskatchewan Archives Board

The Saskatchewan Archives Board (SAB) is responsible for acquiring and preserving documents relating to the history of Saskatchewan. SAB also provides these documents to the public for research.

SAB had revenue of $3.5 million in 2002 and held tangible capital assets of $250 thousand at March 31, 2002.

Status of previous recommendation on written contract

Beginning in Chapter 14 of our 1995 Spring Report, we recommended that SAB should have a written contract with the University of Saskatchewan (U of S). The U of S continues to provide SAB with office space and administrative and accounting services.

In October 1998 and later in June 2001, The Standing Committee on Public Accounts considered this matter and concurred with our recommendation.

SAB continues to need a written contract to set out the responsibilities and legal obligations of each party for services provided. The contract with the U of S should set out SAB's right to access accounting records, confidentiality needs, and the rules and procedures needed to safeguard and control SAB's assets.

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Saskatchewan Property Management Corporation

16

Executive summary

In this chapter, we recommend the Saskatchewan Property Management Corporation (SPMC) develop, test, and approve a disaster recovery plan. Many government agencies rely upon SPMC for services. Disaster recovery plans ensure the continuity of its operations if disaster strikes.

In addition, SPMC needs to improve the contents of its annual report. In recent years, SPMC has made a number of improvements to its report. Further improvements that set out the extent to which it has achieved its plans are necessary.

Introduction

The Saskatchewan Property Management Corporation (SPMC) operates under the authority of *The Saskatchewan Property Management Corporation Act*. SPMC provides accommodation and commercial services to government departments, Crown corporations, boards, agencies, and commissions as well as to other levels of government and various non-government organizations.

SPMC's 2002 financial statements show SPMC had revenues of $224 million, a net loss of $0.2 million, and held assets of $449 million at March 31, 2002.

Our audit conclusions and findings

Our Office worked with Deloitte & Touche LLP, the appointed auditor for SPMC, using the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors* (to view a copy of this report, see our web site at http://www.auditor.sk.ca/rrd.html). The appointed auditor and our Office formed the following opinions:

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

- **SPMC's financial statements are reliable;**
- **SPMC had adequate rules and procedures to safeguard and control its assets except that SPMC needs a disaster recovery plan; and**
- **SPMC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

We also report one other matter for the attention of the Legislative Assembly.

Disaster recovery plan needed

SPMC needs a disaster recovery plan.

SPMC relies on a number of computer systems to deliver its services to customers and to manage its financial affairs. As a result, it is important that SPMC's computer systems are available to ensure the continuity of SPMC'S operations.

SPMC safeguards its data in various ways but does not have a written and tested plan to minimize the impact of a disaster on it or its customers. SPMC should develop, test, and approve a disaster recovery plan that will help to minimize these risks.

1. We recommend that SPMC approve a written and tested disaster recovery plan.

Annual Report needs improvement

SPMC's 2001-2002 Annual Report does not adequately describe whether SPMC has achieved its plans.

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

We reviewed SPMC's 2001-2002 Annual Report. This Report provides much of the information expected to be in annual reports. The Report sets out SPMC's vision, mission, goals, and objectives and describes the risks that SPMC faces. We encourage SPMC to make further improvements to its future annual reports. Future reports should describe SPMC's key performance targets for each of its objectives as well as how SPMC has performed in meeting these targets. Also, it should set out the reasons for significant differences, if any, between planned and actual results.

2. We recommend that SPMC improve its future annual reports by describing the extent to which it has achieved its plans.

Board of Internal Economy

17

Executive summary

This chapter describes our audit conclusions and findings for the Board of Internal Economy for the year ended March 31, 2002. In recent years, the Board has made good progress in strengthening its processes to manage public money. For the most part, the Board is well managed and is complying with its governing authorities. However, the Board needs to make improvements in two areas.

First, the Board needs to improve the internal management reports it uses to make decisions. The Board should improve these reports by defining the information it requires to assess the Board's performance.

Second, the Board needs to prepare an annual report on its operations. An annual report is a necessary accountability document for all public sector organizations.

Introduction

The Board of Internal Economy assists Members of the Legislative Assembly (MLAs) to perform their responsibilities. It provides funding and support services to MLAs, to the Legislative Assembly, and its committees. It also informs the public of the Legislature's activities. The Board provides administrative services for the Offices of the Ombudsman, the Children's Advocate, the Information and Privacy Commissioner, and the Conflict of Interest Commissioner.

In 2001-02, the Board received $17.2 million from the General Revenue Fund and spent this money on its programs. Information about the Board's expenditures appears in the *Public Accounts 2001-2002: Volume 2: Details of Revenue and Expenditure* (2001-2002 Public Accounts – Volume 2) (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts).

The following is a list of major programs and spending:

	Original Estimates	Actual
	(in millions of dollars)	
Payments and Allowances to MLAs	$ 10.1	$ 9.9
Legislative Assembly Services	3.6	3.6
Administration	2.1	2.0
Caucus Operations	1.4	1.4
Other	.4	0.3
	$ 17.6	$ 17.2

Key risks the Board faces

The Board plays a key role in helping MLAs perform their important responsibilities. How MLAs carry out their duties influences the quality and effectiveness of the Government and the public's confidence in our parliamentary system of government. Responsibilities of MLAs include:

- making the laws that govern people and the Executive Government;

- holding the Executive Government accountable for how it carries out its activities; and

- representing their constituencies in the Legislative Assembly.

In assisting MLAs to carry out their responsibilities, the Board faces many risks. To be successful, the Board needs:

- to ensure the Legislative Assembly and its committees can function effectively;

- to ensure MLAs can access from the Board appropriate resources, information, and advice to enable them to effectively carry out their responsibilities in the Legislative Assembly;

- to ensure MLAs can access appropriate resources from the Board to carry out their activities in their constituencies and are accountable for the use of those resources; and

- to ensure the public can assess whether the work of the Legislative Assembly and MLAs is relevant and done well.

For additional discussion of these key risks and the Department's strategies to manage them, see our 1999 Fall Report – Volume 2.

Our audit conclusions and findings

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

- **the Board had adequate rules and procedures to safeguard and control its assets except for the need for better reporting; and**

- **the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

We also note one other matter relating to improving public accountability for the Legislative Assembly's attention.

Better internal reports required

The Board needs to improve the performance reports it requires from management.

The Board must have sound performance reports to:

- ensure the Board is meeting its goals and objectives;
- monitor management's performance; and
- provide a sound basis for preparing an annual report.

In the prior year, the Board began receiving quarterly financial reports that compare planned results to actual results with forecasts to the end of the year. These reports also included explanations of significant differences. However, the Board does not review the interim reports in its meetings.

In addition, the Board does not receive operational reports that show the effectiveness of the Board's programs and services (i.e., what results the Board expects and how it is progressing towards those expectations).

The Board needs to set its operational goals and objectives and the performance targets and measures needed to monitor its progress. Management should then prepare operational reports that show progress towards its operational goals and objectives for the Board's review.

We also reported this matter in previous years.

1. We continue to recommend that the Board:

- **set and approve its operational goals, objectives and measures;**
- **use performance targets and measures needed to monitor its progress in achieving its goals and objectives; and**
- **review interim financial and operational reports.**

Annual report needed

The Board does not prepare an annual report on its performance.

The Legislative Assembly and Executive Council Act does not require the Board to prepare an annual report. However, almost all government organizations provide the Legislative Assembly with an annual report. In addition, the Standing Committee on Public Accounts recommended that all government departments provide timely annual reports on their activities.

To assess performance of public sector agencies, MLAs and the public need to know how the agency is managing its key risks. They also need information about the agency's goals and objectives and how successful the agency has been in achieving those goals and objectives. Annual reports can provide this information.

To be good accountability documents, annual reports should also describe what the agency is all about, how it manages its key risks, 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.

As we noted earlier, the Board also needs to improve its internal reports. These reports would provide a sound basis for the preparation of an annual report.

The Board plays a key role in fostering public confidence in our parliamentary system of government. An annual report would contribute to public confidence.

We also reported this matter in previous years.

2. We continue to recommend that the Board prepare an annual report on its performance and provide the report to the Legislative Assembly.

In response to these recommendations, the Board told us that management began the process of developing an accountability framework. When this framework has been fully implemented, the Board of Internal Economy will have operational goals and objectives in place, performance targets and measures and a reporting structure to monitor its progress in achieving its goals and objectives.

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Appendix 1

NOTE:

All persons making use of this consolidation are reminded that it has no legislative sanction, that the amendments have been embodied only for convenience of reference and that the original statutes and regulations should be consulted for all purposes of interpretation and application of the law. Please note, however, that in order to preserve the integrity of the original statutes and regulations, errors that may have appeared are reproduced in this consolidation.

The Provincial Auditor Act

SHORT TITLE AND INTERPRETATION

Short Title

1 This Act may be cited as *The Provincial Auditor Act*.

Interpretation

2 In this Act:

(a) **"acting provincial auditor"** means the acting provincial auditor appointed pursuant to section 5;

(a.1) **"appointed auditor"** means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) **"audit"** means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) **"Crown"** means Her Majesty the Queen in right of Saskatchewan;

(d) **"Crown agency"** means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) **"Crown-controlled corporation"** means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) **"fiscal year"** means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) **"provincial auditor"** means the Provincial Auditor for Saskatchewan appointed pursuant to section 3.1;

(g.1) **"public accounts committee"** means the Standing Committee of the Legislative Assembly on Public Accounts;

(h) **"public money"** means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) **"public property"** means property held or administered by the Crown;

(j) **"Speaker"** means the member of the Legislative Assembly elected as Speaker in accordance with *The Legislative Assembly and Executive Council Act.*

1983, c.P-30.01, s.2; 1986-87-88, c.26, s.4; 2001, c.32, s.3.

APPOINTMENT AND OFFICE

Provincial Auditor for Saskatchewan

3(1) The office of Provincial Auditor for Saskatchewan is established.

(2) The provincial auditor is an officer of the Legislative Assembly.

2001, c.32, s.4.

Appointment of provincial auditor

3.1(1) On the unanimous recommendation of the public accounts committee, the Legislative Assembly shall, by resolution, appoint a provincial auditor.

(2) The provincial auditor holds office for a term of 10 years from the date of his or her appointment unless, before that term expires, he or she:

(a) resigns or is suspended or removed from office pursuant to section 3.2; or

(b) attains the normal date of retirement for employees of the public service of Saskatchewan.

(3) The provincial auditor may apply for a second or subsequent term.

2001, c.32, s.4.

Resignation, removal of provincial auditor

3.2(1) The provincial auditor may resign the office at any time by giving written notice:

(a) to the Speaker; or

(b) if there is no Speaker or if the Speaker is absent from Saskatchewan, to the President of the Executive Council.

(2) The Legislative Assembly may, by resolution, suspend or remove the provincial auditor from office for cause.

2001, c.32, s.4.

Salary of the provincial auditor

4(1) Subject to subsections (2) and (3), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Any benefits or payments that may be characterized as deferred income, retirement allowances, separation allowances, severance allowances or payments in lieu of notice are not to be included in calculating the average salary of all the deputy ministers and acting deputy ministers pursuant to subsection (1).

(3) Where, as a result of a calculation made pursuant to subsection (1), the salary of a provincial auditor would be less than that provincial auditor's previous salary, the provincial auditor is to be paid not less than his or her previous salary.

(4) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided generally to deputy ministers.

(5) The salary of the provincial auditor shall be paid out of the general revenue fund.

2001, c.32, s.5.

Acting provincial auditor

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

1983, c.P-30.01, s.5.

Qualifications of provincial auditor, acting provincial auditor

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

1983, c.P-30.01, s.6.

Advisors, etc.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisers, specialists or consultants that he considers necessary.

1983, c.P-30.01, s.7; 2001, c.32, s.6.

Office of the provincial auditor

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the provincial auditor's office are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The employee benefits applicable to the public servants of Saskatchewan apply or continue to apply, as the case may be, to the provincial auditor and the employees of the provincial auditor's office.

(4) *The Public Service Superannuation Act*, *The Superannuation (Supplementary Provisions) Act* and *The Public Employees Pension Plan Act* apply to the provincial auditor and the employees of the provincial auditor's office, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the provincial auditor's office and accumulated under those Acts, before the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the provincial auditor's office and the general business of the office and shall oversee and direct the staff of the office.

1983, c.P-30.01, s.8; 2001, c.32, s.7.

Confidentiality

9 The provincial auditor shall require every person employed in his or her office, and any person engaged or retained pursuant to section 7, who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

1983, c.P-30.01, s.9; 2001, c.32, s.8.

Delegation of authority

10 The provincial auditor may delegate to any member of the provincial auditor's office the authority to exercise any power or to perform any duty conferred on the provincial auditor pursuant to this Act, other than the duty to make:

(a) an annual report on operations pursuant to section 10.4;

(b) a business and financial plan pursuant to section 10.5;

(c) an annual report pursuant to section 12; or

(d) a special report to the Legislative Assembly.

2001, c.32, s.9.

Estimates

10.1(1) For each fiscal year, the provincial auditor shall present to the public accounts committee, in accordance with any instructions from the public accounts committee, estimates of the moneys that will be required to be provided by the Legislature for the expenses of the provincial auditor's office, including an amount for unforeseen expenses.

(2) On receipt of the estimates pursuant to subsection (1), the public accounts committee:

(a) shall review the estimates; and

(b) may make any alterations to the estimates that the public accounts committee considers appropriate.

(3) After reviewing and making any alterations to the estimates pursuant to subsection (2), the public accounts committee shall approve the estimates.

(4) After approving the estimates pursuant to subsection (3), the chairperson of the public accounts committee shall submit the estimates to the Speaker and to the Board of Internal Economy.

(5) The Speaker shall cause the estimates submitted pursuant to subsection (4) to be laid before the Legislative Assembly.

(6) Notwithstanding subsections (1) to (5), if a public accounts committee has not been appointed by a date to allow the Speaker to cause the estimates of the provincial auditor for a fiscal year to be laid before the Legislative Assembly pursuant to subsections (1) to (5), the Speaker shall cause the estimates of the provincial auditor for the previous fiscal year to be laid before the Legislative Assembly.

(7) The Legislative Assembly may refer the estimates laid before it pursuant to subsection (5) or (6) to a Standing Committee of the Legislative Assembly.

(8) Where the estimates are not referred to a Standing Committee of the Legislative Assembly, the estimates are to be considered in the Committee of Finance and defended by a member of the Executive Council who is designated by the President of the Executive Council.

(9) *The Tabling of Documents Act, 1991* does not apply to the estimates required to be prepared by the provincial auditor pursuant to this section.

2001, c.32, s.9.

Unprovided for or unforeseen expenses

10.2(1) For the purposes of this section, the Legislature is not in session where it:

(a) is prorogued; or

(b) is adjourned for an indefinite period or to a day more than seven days after the Lieutenant Governor in Council made the order directing the preparation of the special warrant pursuant to this section.

(2) If the Legislature is not in session, the provincial auditor may report to the public accounts committee that:

(a) a matter has arisen with respect to the administration of this Act respecting an expense required by the provincial auditor's office that was not foreseen or provided for, or was insufficiently provided for; and

(b) the provincial auditor is of the opinion that there is no appropriation for the expense or that the appropriation is exhausted or insufficient and that the expense is urgently and immediately required for the public good.

(3) On receipt of a report of the provincial auditor pursuant to subsection (2), the public accounts committee:

(a) shall review the report and make any alterations to the funding request in the report that the public accounts committee considers appropriate; and

(b) may recommend to the Minister of Finance that a special warrant be issued authorizing the expense in the amount the public accounts committee determines to be appropriate.

(4) On receipt of a recommendation of the public accounts committee pursuant to subsection (3), the Minister of Finance shall recommend to the Lieutenant Governor in Council that a special warrant be issued authorizing the expense in the amount recommended by the public accounts committee.

(5) On receipt of a recommendation of the Minister of Finance pursuant to subsection (4), the Lieutenant Governor in Council may order a special warrant to be prepared for the signature of the Lieutenant Governor authorizing the expense in the amount recommended by the public accounts committee.

(6) For the purposes of *The Financial Administration Act, 1993* and of this Act, a special warrant issued pursuant to subsections (1) to (5) is deemed to be a special warrant issued pursuant to section 14 of *The Financial Administration Act, 1993*, and that Act applies to a special warrant issued pursuant to those subsections as if it were issued pursuant to section 14 of that Act.

(7) Notwithstanding subsections (1) to (6), the provincial auditor may request that the Minister of Finance recommend that a special warrant be issued pursuant to section 14 of *The Financial Administration Act, 1993* if:

(a) a public accounts committee has not been appointed; and

(b) the provincial auditor reports that the conditions mentioned in clauses (2)(a) and (b) are met.

2001, c.32, s.9.

Expenses limited to appropriation

10.3(1) In this section, **"appropriation"** means:

(a) an appropriation for the expenses of the provincial auditor's office made by an *Appropriation Act*;

(b) an appropriation by special warrant issued pursuant to section 10.2; and

(c) any other amount that is permitted or directed to be paid out of the general revenue fund pursuant to this or any other Act for the expenses of the provincial auditor's office.

(2) The provincial auditor shall not incur expenses for a fiscal year in excess of the appropriation for that fiscal year.

(3) The Minister of Finance shall pay to the provincial auditor out of the general revenue fund the appropriation for a fiscal year in the amounts and at the times requested by the provincial auditor.

(4) Where the amounts paid to the provincial auditor pursuant to subsection (3) on account of an appropriation for a fiscal year exceed the expenses of the provincial auditor's office for that fiscal year, the provincial auditor shall repay the excess to the Minister of Finance as soon as is practicable after the end of the fiscal year, and the Minister of Finance shall deposit any amounts received pursuant to this subsection in the general revenue fund.

2001, c.32, s.9.

Annual report on operations

10.4(1) In each fiscal year, the provincial auditor shall prepare and submit to the Speaker an annual report on operations that is to consist of the following:

(a) a report on the operations of the provincial auditor's office for the preceding fiscal year;

(b) the audited financial statement for the provincial auditor's office showing the results of its operations for the preceding fiscal year.

(2) The provincial auditor shall submit the annual report on operations mentioned in subsection (1) within 120 days after the end of the fiscal year to which the annual report on operations relates.

2001, c.32, s.9.

Business and financial plan

10.5 Prior to the beginning of each fiscal year, by a date that may be required by the public accounts committee, the provincial auditor shall prepare and submit to the Speaker a business and financial plan for the provincial auditor's office showing its planned operations and its planned revenues and expenses for the fiscal year

2001, c.32, s.9.

DUTIES AND POWERS

Examination of accounts

11(1) The provincial auditor is the auditor of the accounts of the government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

1986-87-88, c.26, s.6.

Reliance on report of appointed auditor

11.1(1) In the fulfilment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) The provincial auditor may only rely on the report of an appointed auditor of a Crown agency or the appointed auditor of a Crown-controlled corporation if the appointed auditor:

(a) is a member in good standing of a recognized accounting profession that is regulated by an Act; and

(b) is not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the provincial auditor's office.

(3) Where the provincial auditor determines pursuant to subsection (1) or (2) that he or she is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(4) Where the provincial auditor has conducted additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (3), the provincial auditor shall report in his or her annual report pursuant to this section:

(a) the reason that the provincial auditor was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work the provincial auditor conducted; and

(c) the results of the additional audit work.

1986-87-88, c.26, s.6; 2001, c.32, s.10.

Annual Report

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservation of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

1983, c.P-30.01, s.12; 1986-87-88, c.26, s.7.

Special report

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

1983, c.P-30.01, s.13.

Submission of provincial auditor's reports

14 Notwithstanding *The Tabling of Documents Act, 1991*, the provincial auditor shall submit to the Speaker, as soon as is practicable:

(a) the annual report prepared pursuant to section 12; and

(b) any special report that is prepared by the provincial auditor pursuant to section 13.

2001, c.32, s.11.

Tabling of reports

14.1(1) In this section, **"report"** means:

(a) an annual report on the operations of the provincial auditor's office that is submitted to the Speaker pursuant to section 10.4;

(b) a business and financial plan for the provincial auditor's office that is submitted to the Speaker pursuant to section 10.5;

(c) an annual report prepared pursuant to section 12 that is submitted to the Speaker pursuant to section 14;

(d) any special report that is prepared by the provincial auditor pursuant to section 13 that is submitted to the Speaker pursuant to section 14; or

(e) a report of the auditor of the accounts of the provincial auditor's office that is submitted to the Speaker pursuant to section 27.

(2) The Speaker shall lay before the Legislative Assembly each report received by the Speaker as soon as is practicable after it is received.

(3) If the Legislative Assembly is not in session when the Speaker receives a report, the Speaker shall submit the report to the Clerk of the Legislative Assembly.

(4) When the Clerk of the Legislative Assembly receives a report pursuant to subsection (3), the Clerk shall, as soon as possible:

(a) subject to subsection (5), cause a copy of the report to be delivered to each member of the Legislative Assembly; and

(b) make the report available for public inspection during normal business hours of the Clerk of the Legislative Assembly.

(5) The requirement in subsection (4) to deliver a copy of a report to the members of the Legislative Assembly does not apply in the period that:

(a) commences on the day a Legislative Assembly is dissolved; and

(b) ends on the day fixed for making the return to the writ for the general election held pursuant to *The Election Act, 1996* that follows the dissolution mentioned in clause (a).

(6) If a report is submitted to the Clerk of the Legislative Assembly in accordance with subsection (3), the report is deemed to have been laid before the Assembly.

(7) Where a report is laid before the Legislative Assembly pursuant to subsection (2) or is deemed to be laid before the Legislative Assembly pursuant to subsection (6), the report is deemed to be referred to the public accounts committee.

(8) Notwithstanding subsection (7), where a report or part of a report mentioned in subsection (7) deals with a matter that relates to the Crown Investments Corporation of Saskatchewan or a subsidiary Crown corporation within the meaning of *The Crown Corporations Act, 1993*, the report or part of the report is deemed to be referred to the Standing Committee of the Legislative Assembly on Crown Corporations.

2001, c.32, s.11.

Certification of Statements

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

1983, c.P-30.01, s.15; 1986-87-88, c.26, s.9.

Special assignments

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

1983, c.P-30.01, s.16.

Improper retention of public money

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

1983, c.P-30.01, s.17.

Cancelled securities

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself or herself that the securities described in clause (a) have been properly cancelled;

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities; and

(d) at any time that he or she is requested to do so by the Minister of Finance, participate in audit assignments in connection with the filing of a prospectus and registration material required for the issuance and sale of securities of the Government of Saskatchewan.

1983, c.P-30.01, s.18; 2001, c.32, s.12.

Attendance before Public Accounts Committee

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

1983, c.P-30.01, s.19.

AUDIT COMMITTEE

Audit committee

20(1) In this section and in sections 21 to 23, **"audit committee"** means the audit committee established pursuant to subsection (2).

(2) An audit committee is established.

(3) The audit committee is to consist of not more than five persons appointed by the Speaker on the unanimous recommendation of the public accounts committee.

(4) A recommendation of the public accounts committee pursuant to subsection (3) is to be made only after the public accounts committee has consulted with the Standing Committee of the Legislative Assembly on Crown Corporations.

(5) The following persons are not eligible to be a member of the audit committee:

(a) a Member of the Legislative Assembly;

(b) an appointed auditor;

(c) an employee of the Government of Saskatchewan, of a Crown agency, of a Crown-controlled corporation or of the provincial auditor's office.

(6) The Speaker shall designate as chairperson the member of the audit committee unanimously recommended by the public accounts committee.

(7) The audit committee may determine its rules of procedure.

(8) All expenses of the audit committee are to be paid out of the appropriation for the Legislative Assembly Office.

2001, c.32, s.13.

Functions of the audit committee

21(1) The public accounts committee may request the audit committee to assist it in undertaking the following:

(a) the recommending of a provincial auditor;

(b) the review of the estimates of the provincial auditor;

(c) the review of the annual report on operations of the provincial auditor;

(d) the review of any report of the provincial auditor prepared pursuant to section 12 or 13;

(e) any other matters that the public accounts committee may request.

(2) The provincial auditor, the Minister of Finance, the member of the Executive Council responsible for *The Crown Corporations Act, 1993* or the Standing Committee of the Legislative Assembly on Crown Corporations may request the audit committee to review any matter that, in the opinion of the provincial auditor, the Minister of Finance, the member of the Executive Council responsible for *The Crown Corporations Act, 1993* or the Standing Committee of the Legislative Assembly on Crown Corporations, as the case may be, should be considered by the audit committee.

2001, c.32, s.13.

Information to be provided to audit committee

22(1) The audit committee may request the provincial auditor and any officers or employees of the Government of Saskatchewan, a Crown agency or a Crown-controlled corporation to provide the audit committee with any information that the audit committee considers necessary to carry out its functions mentioned in section 21, and the provincial auditor and the officers or employees of the Government of Saskatchewan, the Crown agency or the Crown-controlled corporation may provide the information requested.

(2) The audit committee and each member of the audit committee:

(a) shall preserve secrecy with respect to all matters that come to their knowledge in the course of performing their functions pursuant to this Act; and

(b) shall not communicate those matters to any person, other than when required to do so in the performance of their functions pursuant to this Act.

2001, c.32, s.13.

Availability of reports

23(1) For the purpose of allowing the Minister of Finance to review and comment on the provincial auditor's annual report prepared pursuant to section 12, the provincial auditor shall submit the provincial auditor's annual report to the Minister of Finance at least 10 days before the provincial auditor causes the annual report to be printed for submission to the Speaker.

(2) The provincial auditor shall submit to the Minister of Finance any special report prepared pursuant to section 13 before the provincial auditor submits that special report to the Speaker.

2001, c.32, s.13.

GENERAL

Right to information, accommodation

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts; of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

1983, c.P-30.01, s.24; 1986-87-88, c.26, s.10.

Inquiries

25 The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under *The Public Inquiries Act*.

1983, c.P-30.01, s.25.

Working papers

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

1983, c.P-30.01, s.26; 1986-87-88, c.26, s.11.

Change in auditor

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

1986-87-88, c.26, s.12.

Auditor of accounts of provincial auditor's office

27(1) On the recommendation of the public accounts committee, the Lieutenant Governor in Council shall appoint an accountant who meets the qualifications set out in subsection (2) to annually audit the accounts of the provincial auditor's office.

(2) For the purposes of subsection (1), the accountant appointed pursuant to this section:

(a) must be a member in good standing of a recognized accounting profession that is regulated by an Act; and

(b) must not be employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the provincial auditor's office.

(3) The accountant appointed pursuant to subsection (1) has the same powers and shall perform the same duties in relation to an audit of the accounts of the provincial auditor's office that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(4) The auditor of the accounts of the provincial auditor's office shall submit his or her report to the Speaker.

2001, c.32, s.14.

Fees

28(1) The provincial auditor may charge a reasonable fee for professional services provided by provincial auditor's office.

(2) All fees charged pursuant to subsection (1) and all other revenues received by the provincial auditor pursuant to this Act shall be deposited in the general revenue fund.

1983, c.P-30.01, s.28; 2001, c.32, s.15.

Limitation of liability

29 The provincial auditor, the employees in the provincial auditor's office and any adviser, specialist or consultant engaged or retained pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

1983, c.P-30.01, s.29; 2001, c.32, s.16.

Information confidential

30 The provincial auditor, any employee in the provincial auditor's office, an appointed auditor, any employee of an appointed auditor or any adviser, specialist or consultant engaged or retained pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her employment or duties under this Act; and

(b) shall not communicate those matters to any person, other than when he or she is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

(iii) any proceedings in a court of law.

1983, c.P-30.01, s.30; 1986-87-88, c.26, s.13; 2001, c.32, s.17.

31 Repealed. 2001, c.32, s.18.

Transitional

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Financial Act*, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

1983, c.P-30.01, s.32.

REGINA, SASKATCHEWAN
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Appendix 2

List and status of organizations subject to an examination under *The Provincial Auditor Act*

Appendix 2 lists the departments, Crown agencies, Crown-controlled corporations, special purpose and trust funds, offices of the Legislative Assembly, and other organizations subject to an audit examination under *The Provincial Auditor Act* at June 30, 2002.

This Appendix includes the status of all of the audits at November 1, 2002. The Appendix also indicates whether we have significant issues to report and where these issues are reported.

Our goal is to report the results of our audits of organizations with March fiscal year-ends in our fall reports and organizations with December fiscal year-ends in our spring reports. We have not completed the audits at some agencies. In most cases, the audits have been delayed. However, in a few cases, we have not been given access to the necessary information to complete the audits. To ensure that we provide the Legislative Assembly and the public with timely reports, we do not delay our reports to accommodate delayed audits, but rather include their results in future reports.

Appendix 2

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Government of Saskatchewan – Summary Financial Statements	March 31	Complete	Yes/2002 Fall V1
Departments and Secretariats:			
Department of Agriculture and Food	March 31	Complete	No
Department of Culture, Youth and Recreation	March 31	Complete	No
Department of Economic and Co-operative Development	March 31	Delayed	
Department of Education	March 31	Complete	Yes/2002 Fall V2
Department of Energy and Mines	March 31	Delayed	
Department of Environment and Resource Management	March 31	Complete	Yes/2002 Fall V2
Department of Finance	March 31	Complete	Yes/2002 Fall V2
Department of Health	March 31	Complete	Yes/2002 Fall V2
Department of Highways and Transportation	March 31	Complete	No
Department of Intergovernmental and Aboriginal Affairs	March 31	Complete	Yes/2002 Fall V2
Department of Justice	March 31	Complete	Yes/2002 Fall V2
Department of Labour	March 31	Complete	Yes/2002 Spring
Department of Municipal Affairs and Housing	March 31	Complete	Yes/2002 Fall V2
Department of Post-Secondary Education and Skills Training	March 31	Complete	Yes/2002 Fall V2
Department of Social Services	March 31	Complete	Yes/2002 Fall V2
Executive Council	March 31	Complete	No
Women's Secretariat	March 31	Complete	No
Crown Agencies:			
101000606 Saskatchewan Ltd.	December 31	Note 2	No
101000607 Saskatchewan Ltd.	December 31	Note 2	No
101005716 Saskatchewan Ltd.	December 31	Complete	Yes/2002 Spring
101012875 Saskatchewan Ltd.	December 31	Delayed	
101012876 Saskatchewan Ltd.	December 31	Delayed	
3231518 Canada Ltd. (clickabid)™	December 31	Note 2	No
3339807 Canada Ltd.	December 31	Note 2	No
3364381 Canada Ltd.	December 31	Note 2	No
617275 Saskatchewan Ltd.	December 31	Complete	Yes/2002 Spring
620064 Saskatchewan Ltd.	December 31	Note 2	No
Ag Dealer Ltd., The	December 31	Complete	No
Agricultural Credit Corporation of Saskatchewan	March 31	Complete	Yes/2002 Fall V2
Agricultural Implements Board	March 31	Complete	No

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Agri-Food Innovation Fund	March 31	Complete	Yes/2002 Fall V2
Assiniboine Valley District Health Board	March 31	Rotational	
Avonlea Holding, Inc.	December 31	Note 2	No
Battleford International, Inc.	December 31	Note 2	No
Battlefords District Health Board	March 31	Complete	Yes/2002 Fall V2
Bayhurst Gas Limited	December 31	Complete	Yes/2002 Spring
Beef Development Board	March 31	Complete	No
Board of Governors, Uranium City Hospital	March 31	Delayed	
Board of Internal Economy	March 31	Complete	Yes/2002 Fall V2
Business Watch International Inc.	December 31	Complete	No
Canodev Research Inc.	July 31	Complete	No
Carlton Trail Regional College	June 30	Rotational	
Carlyle Holding, Inc.	December 31	Note 2	No
Central Plains District Health Board	March 31	Rotational	
Chicken Farmers of Saskatchewan	December 31	Note 1	
Chief Electoral Office	March 31	Complete	Yes/2002 Spring
CIC Foods Inc.	December 31	Complete	No
CIC Industrial Interests Inc.	December 31	Complete	Yes/2002 Spring
CIC Pulp Ltd.	December 31	Complete	No
Coachman Insurance Company	December 31	Complete	Yes/2002 Spring
Community Initiatives Fund	March 31	Complete	No
Conflict of Interest Commissioner	March 31	Complete	No
Crown Investments Corporation of Saskatchewan	December 31	Complete	Yes/2002 Spring
Cumberland Regional College	June 30	Rotational	
Cypress Hills Regional College	June 30	Rotational	
DirectWest Publishing Partnership	December 31	Complete	No
Dundurn Holding, Inc.	December 31	Note 2	No
East Central District Health Board	March 31	Complete	Yes/2002 Fall V2
Esterhazy Holding, Inc.	December 31	Note 2	No
First Nations Fund	March 31	Complete	Yes/2002 Fall V2
Foam Lake Holding, Inc.	December 31	Note 2	No
Gabriel Springs District Health Board	March 31	Rotational	
Genex Swine Group Inc.	September 30	Complete	Yes/2002 Spring
Government House Foundation	March 31	Complete	No
Greenhead District Health Board	March 31	Rotational	
Grenfell Holding, Inc.	December 31	Note 2	No
Health Services Utilization and Research Commission	March 31	Complete	No
Hollywood at Home Inc.	December 31	Note 2	No
Hospitality Network Canada Inc.	December 31	Note 2	No

Appendix 2

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Hospitality Network Canada Partnership	December 31	Complete	No
Information and Privacy Commissioner	March 31	Complete	No
Information Services Corporation of Saskatchewan	December 31	Complete	Yes/2002 Fall V2
Insurance Company of Prince Edward Island	December 31	Complete	Yes/2002 Spring
IQA Corporation	December 31	Note 2	No
IQ & A Partnership	December 31	Note 2	No
Jan Lake Holding, Inc.	December 31	Note 2	No
Katepwa Lake Holding, Inc.	December 31	Note 2	No
Keewatin Yathe District Health Board	March 31	Rotational	
Law Reform Commission of Saskatchewan	March 31	Complete	No
Liquor and Gaming Authority	March 31	Complete	Yes/2002 Fall V2
Liquor Board Superannuation Commission, The	December 31	Complete	Yes/2002 Spring
Living Sky District Health Board	March 31	Rotational	
Lloydminster District Health Board	March 31	Rotational	
Mamawetan Churchill River District Health Board	March 31	Rotational	
Many Islands Pipe Lines (Canada) Limited	December 31	Complete	Yes/2002 Spring
Melfort Holding, Inc.	December 31	Note 2	No
Métis Development Fund	December 31	Complete	Yes/2002 Fall V2
Midwest District Health Board	March 31	Rotational	
Milk Control Board	December 31	Complete	Yes/2002 Fall V2
MK Telecom Network Holdings Inc.	December 31	Note 2	No
MK Telecom Network Inc.	December 31	Note 2	No
Moose Jaw-Thunder Creek District Health Board	March 31	Complete	Yes/2002 Fall V2
Moose Mountain District Health Board	March 31	Rotational	
Municipal Employees' Pension Commission	December 31	Delayed	
Municipal Financing Corporation of Saskatchewan	December 31	Complete	No
Municipal Potash Tax Sharing Administration Board	December 31	Complete	No
Navigata Holding, Inc. (formerly Langenburg Holding Inc.)	December 31	Complete	No
Nokomis Holding, Inc.	December 31	Complete	No
North Central District Health Board	March 31	Complete	Yes/2002 Fall V2
North Valley District Health Board	March 31	Rotational	
North West Regional College	June 30	Complete	Yes/2002 Fall V2
North-East District Health Board	March 31	Rotational	
Northlands College	June 30	Rotational	

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Northpoint Energy Solutions Inc.	December 31	Complete	No
Northwest District Health Board	March 31	Rotational	
Ombudsman and Children's Advocate, Office of the	March 31	Complete	No
Operator Certification Board	March 31	Complete	Yes/2002 Fall V2
Outlook Holding, Inc.	December 31	Note 2	No
Parkland District Health Board	March 31	Rotational	
Parkland Regional College	June 30	Complete	Yes/2002 Fall V2
Pasquia District Health Board	March 31	Rotational	
Pipestone District Health Board	March 31	Rotational	
Pleasantdale Holding, Inc.	December 31	Note 2	No
Power Corporation Superannuation Board	December 31	Complete	No
Power Greenhouses Inc.	December 31	Complete	Yes/2002 Spring
Prairie Agricultural Machinery Institute	March 31	Complete	Yes/2002 Fall V2
Prairie West District Health Board	March 31	Complete	Yes/2002 Fall V2
Prairie West Regional College	June 30	Rotational	
Prince Albert District Health Board	March 31	Complete	Yes/2002 Fall V2
Public Employees Pension Plan	March 31	Complete	Yes/2002 Fall V2
Public Service Superannuation Board	March 31	Complete	Yes/2002 Fall V2
Regina District Health Board	March 31	Complete	Yes/2002 Fall V2
Rolling Hills District Health Board	March 31	Rotational	
RSL COM Canada Holdings Inc.	December 31	Note 2	No
Sask Pork	July 31	Complete	No
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31	Note 1	
Saskatchewan Apprenticeship and Trade Certification Commission	June 30	Complete	No
Saskatchewan Archives Board, The	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Arts Board, The	March 31	Complete	No
Saskatchewan Auto Fund	December 31	Complete	Yes/2002 Spring
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31	Note 1	
Saskatchewan Cancer Foundation	March 31	Complete	No
Saskatchewan Canola Development Commission	July 31	Complete	No
Saskatchewan Centre of the Arts	March 31	Complete	No
Saskatchewan Communications Network Corporation	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Crop Insurance Corporation	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Development Fund Corporation	December 31	Complete	Yes/2002 Spring
Saskatchewan Egg Producers	December 31	Note 1	

Appendix 2

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Saskatchewan Flax Development Commission	July 31	Note 1	
Saskatchewan Gaming Corporation	March 31	Complete	No
Saskatchewan Government Growth Fund Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund II Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund III Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund IV Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund V (1997) Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund VI Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund VII Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund VIII Ltd.	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Growth Fund Management Corporation	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Insurance	December 31	Complete	Yes/2002 Spring
Saskatchewan Government Insurance Superannuation Plan	December 31	Complete	Yes/2002 Spring
Saskatchewan Grain Car Corporation	July 31	Complete	No
Saskatchewan Health Information Network	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Heritage Foundation	March 31	Complete	No
Saskatchewan Housing Corporation	December 31	Complete	Yes/2002 Spring
Saskatchewan Indian Gaming Authority Inc.	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Institute of Applied Science and Technology	June 30	Complete	No
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation	March 31	Complete	No
Saskatchewan Municipal Board	March 31	Complete	No
Saskatchewan Opportunities Corporation	December 31	Complete	Yes/2002 Spring
Saskatchewan Pension Annuity Fund	March 31	Complete	No
Saskatchewan Pension Plan	December 31	Complete	No
Saskatchewan Power Corporation	December 31	Complete	Yes/2002 Spring
Saskatchewan Property Management Corporation	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Pulse Crop Development Board	August 31	Note 1	
Saskatchewan Research Council, The	March 31	Complete	No
Saskatchewan Sheep Development Board	September 30	Note 1	

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Saskatchewan Telecommunications	December 31	Complete	No
Saskatchewan Telecommunications Holding Corporation	December 31	Complete	No
Saskatchewan Telecommunications International, Inc.	December 31	Complete	No
Saskatchewan Trade and Export Partnership Inc.	March 31	Note 1	
Saskatchewan Transportation Company	December 31	Complete	Yes/2002 Spring
Saskatchewan Turkey Producers' Marketing Board	December 31	Note 1	
Saskatchewan Valley Potato Corporation	December 31	Complete	Yes/2002 Spring
Saskatchewan Water Corporation	December 31	Complete	Yes/2002 Spring
Saskatchewan Wetland Conservation Corporation	March 31	Complete	No
Saskatoon District Health Board	March 31	Complete	Yes/2002 Fall V2
SaskEnergy Chilean Holdings I Ltd.	December 31	Complete	Yes/2002 Spring
SaskEnergy Chilean Holdings II Ltd.	December 31	Complete	Yes/2002 Spring
SaskEnergy Chilean Holdings Limitada	December 31	Complete	Yes/2002 Spring
SaskEnergy Incorporated	December 31	Complete	Yes/2002 Spring
SaskEnergy International Incorporated	December 31	Complete	Yes/2002 Spring
SaskPen Properties Ltd.	December 31	Denied Access	
SaskPower International Inc.	December 31	Complete	Yes/2002 Spring
SaskTel Data Exchange Inc.	December 31	Note 2	No
SaskTel Holding (Australia), Inc.	December 31	Note 2	No
SaskTel Holding (New Zealand) Inc.	December 31	Note 2	No
SaskTel Holding (U.K.) Inc.	December 31	Note 2	No
SaskTel International Consulting, Inc.	December 31	Note 2	No
Saskatchewan Telecommunications International (Tanzania) Limited	December 31	Note 2	No
SaskTel Investments Inc.	December 31	Note 2	No
SaskTel New Media Fund Inc.	December 31	Note 2	No
SecurTek Monitoring Solutions Inc.	December 31	Complete	No
SecurTek Partnership No. 3	December 31	Note 2	No
SecurTek Partnership No. 4	December 31	Note 2	No
SGC Holdings Inc.	March 31	Complete	No
SGI CANADA Insurance Services Ltd.	December 31	Complete	Yes/2002 Spring
South Central District Health Board	March 31	Complete	Yes/2002 Fall V2
South Country District Health Board	March 31	Rotational	
South East District Health Board	March 31	Rotational	
Southeast Regional College	June 30	Complete	Yes/2002 Fall V2
Southwest District Health Board	March 31	Rotational	
SP Two Properties Ltd.	March 31	Denied Access	

Appendix 2

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
St. Louis Alcoholism Rehabilitation Centre Inc.	March 31	Complete	No
STI Communications Pty Limited	December 31	Note 2	No
Swan Valley Gas Corporation	December 31	Complete	Yes/2002 Spring
Swift Current District Health Board	March 31	Complete	Yes/2002 Fall V2
Teachers' Superannuation Commission	June 30	Complete	Yes/2002 Fall V2
TecMark International Commercialization Inc.	March 31	Complete	No
TLW Holdings Inc.	December 31	Note 2	No
Touchwood Qu'Appelle District Health Board	March 31	Rotational	
TransGas Limited	December 31	Complete	Yes/2002 Spring
Twin Rivers District Health Board	March 31	Rotational	
University of Regina Crown Foundation	April 30	Complete	No
University of Saskatchewan Crown Foundation	April 30	Complete	No
Water Appeal Board	March 31	Complete	No
Western Development Museum	March 31	Complete	No
Workers' Compensation Board	December 31	Complete	Yes/2002 Spring
Workers' Compensation Board Superannuation Plan	December 31	Complete	Yes/2002 Spring
Special Purpose and Trust Funds:			
Agri-Food Equity Fund	March 31	Complete	No
Capital Pension Plan	December 31	Complete	Yes/2002 Spring
Cattle Marketing Deductions Fund	March 31	Complete	No
Commercial Revolving Fund	March 31	Complete	Yes/2002 Fall V2
Correctional Facilities Industries Revolving Fund	March 31	Complete	No
Correspondence School Revolving Fund	March 31	Complete	Yes/2002 Fall V2
Crop Reinsurance Fund of Saskatchewan	March 31	Complete	No
Doukhobors of Canada C.C.U.B. Trust Fund	May 31	Complete	No
Extended Health Care Plan	December 31	Complete	No
Extended Health Care Plan for Certain Other Employees	December 31	Complete	No
Fiscal Stabilization Fund	March 31	Complete	Yes/2002 Fall V2
Fish and Wildlife Development Fund	March 31	Complete	Yes/2002 Fall V2
Forest Fire Contingency Fund	March 31	Complete	Yes/2002 Fall V2
General Revenue Fund	March 31	Complete	Yes/2002 Fall V2
Highways Revolving Fund	March 31	Complete	No
Horned Cattle Fund	March 31	Complete	Yes/2002 Fall V2
Judges of the Provincial Court Superannuation Plan	March 31	Complete	Yes/2002 Fall V2

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Learning Resources Distribution Centre Revolving Fund	March 31	Complete	Yes/2002 Fall V2
Livestock Services Revolving Fund	March 31	Complete	No
Members of the Legislative Assembly Superannuation Plan	March 31	Complete	Yes/2002 Fall V2
Northern Revenue Sharing Trust Account	December 31	Complete	No
Office of the Rentalsman – Rentalsman's Trust Account	March 31	Complete	No
Oil and Gas Environmental Fund	March 31	Complete	No
Pastures Revolving Fund	March 31	Delayed	
Provincial Mediation Board Trust Account	March 31	Complete	No
Public Employees Benefits Agency Revolving Fund	March 31	Complete	No
Public Employees Deferred Salary Leave Fund	December 31	Complete	No
Public Employees Dental Fund	December 31	Complete	No
Public Employees Disability Income Fund	December 31	Complete	No
Public Employees Group Life Insurance Fund	December 31	Complete	No
Public Trustee for Saskatchewan	March 31	Complete	Yes/2002 Fall V2
Queen's Printer Revolving Fund	March 31	Complete	No
Resource Protection and Development Revolving Fund	March 31	Complete	Yes/2002 Fall V2
Sask 911 Account	March 31	Complete	No
Saskatchewan Agricultural Stabilization Fund	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Development Fund	December 31	Complete	Yes/2002 Spring
Saskatchewan Legal Aid Commission	March 31	Complete	No
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31	Complete	No
Saskatchewan Research Council Employees' Pension Plan	December 31	Complete	No
Saskatchewan Snowmobile Fund	March 31	Complete	No
Saskatchewan Student Aid Fund	March 31	Complete	Yes/2002 Fall V2
Saskatchewan Telecommunications Pension Plan	December 31	Complete	No
SaskPower Supplementary Superannuation Plan	December 31	Complete	No
School Division Tax Loss Compensation Fund	March 31	Complete	No
Social Services Central Trust Account	March 31	Complete	No
Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission	December 31	Complete	No
Training Completions Fund	March 31	Complete	No
Transportation Partnerships Fund	March 31	Complete	No

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Trust Accounts at Court House, Local Registrars and Sheriff's Offices	March 31	Complete	No
Victims' Fund	March 31	Complete	No

Other organizations subject to examination under *The Provincial Auditor Act*:

Agency	Year end on or before June 30, 2002	Status at November 1, 2002[1]	Significant issues reported[2]
Pension Plan for the Eligible Employees at the University of Saskatchewan, 1974	December 31	Complete	No
University of Regina Academic and Administrative Employees Pension Plan	December 31	Complete	No
University of Regina Master Trust	December 31	Complete	No
University of Regina Non-Academic Pension Plan	December 31	Complete	No
University of Regina Pension Plan for Eligible Part-Time Employees	December 31	Complete	No
University of Regina, The	April 30	Complete	No
University of Saskatchewan 1999 Academic Pension Plan	December 31	Complete	No
University of Saskatchewan Academic Employees' Pension Plan	December 31	Complete	No
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31	Complete	No
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31	Complete	No
University of Saskatchewan, The	April 30	Complete	No

Note 1: We audit these agencies in a different way.

In 1999, the Department of Agriculture and Food and our Office agreed that the most efficient way for our Office to examine these smaller agricultural marketing and development agencies would be to work through the Agricultural and Food Products Development and Marketing Council. 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 to comply with legislative authorities.

In 1999, the Department of Economic and Co-operative Development and our Office agreed, as part of the annual audit of the Department, that we would examine the supervisory work carried out by the Department over the Saskatchewan Trade and Export Partnership Inc.

Note 2: These entities are wholly or partially-owned subsidiaries of Saskatchewan Telecommunications Holding Corporation (Corporation). They are included in the consolidated financial statements of the Corporation. For the year ending December 31, 2001, these entities did not carry out active operations.

[1.] "Complete" – the audit was complete at June 30, 2002;
"Delayed" – the audit was delayed;
"Rotational" – for a few sectors (i.e., health districts and regional colleges), we carry out the audits of the most significant entities and use a rotational approach for the remainder. We list entities in rotation whose audits were complete at June 30, 2002 as "Complete". We list the other entities as "Rotational".
"Denied Access" – in a few cases, we have not been given access to the necessary information to complete the audits.

[2.] "No" - no significant issues were reported;
"Yes/2002 Spring" – significant issues were reported in our 2002 Spring Report;
"Yes/2002 Fall V1" – significant issues were reported in our 2002 Fall Report – Volume 1; and
"Yes/2002 Fall V2" – significant issues are reported in our 2002 Fall Report – Volume 2.

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Appendix 3

Examples of opinions we form on departments, Crown agencies, and Crown-controlled corporations

Our mission states: "We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability". We do this by examining and reporting on:

- the reliability of financial information;
- compliance with authorities;
- the adequacy of management systems and practices related to financial reporting, compliance with authorities, and safeguarding assets; and
- the adequacy of management systems and practices related to due regard to economy, efficiency, and effectiveness.

Our examinations and reports focus on the Government as a whole, sectors or programs of government, and individual government organizations. This Appendix contains examples of the audit opinions we form to provide our assurances on financial statements, compliance with authorities, and management practices in this Report. We use the auditing standards recommended by The Canadian Institute of Chartered Accountants to form our opinions.

1. Following is an example of the opinion we form on the adequacy of the control systems used by an agency to safeguard and control public money.

> I have examined the system of internal control of [Crown Agency X] in effect as at [date]. I did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision-making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in The Canadian Institute of Chartered Accountants Handbook.
>
> My examination was conducted in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is

sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of [Crown Agency X] is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in (a) to (d) below. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to my responsibilities under Section 11(1) of The Provincial Auditor Act, I am required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, based upon the above criteria, the system of internal control of [Crown Agency X] in effect as at [date], taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to [Crown Agency X].

Or if the examination disclosed conditions that, individually or in combination result in one or more material weaknesses, the opinion paragraph should be modified as follows:

My examination disclosed the following conditions in the system of internal control of [Crown Agency X] as at [date] which in my opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to [Crown Agency X] may occur and not be detected within a timely period.

The report should go on to describe all material weaknesses, state whether they resulted from the absence of control procedures or the degree of compliance with them, and describe the general nature of the potential errors or fraud that may occur as a result of the weaknesses.

City Date   Chartered Accountant

2. Following is an example of the opinion we form on an agency's compliance with the law regarding its spending, revenue raising, borrowing and investing activities.

I have made an examination to determine whether [Crown Agency X] complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding assets, spending, revenue raising, borrowing and investing activities during the year ended [date]:

(List legislative and related authorities covered by this report. This list must include all governing authorities.)

My examination was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, [Crown Agency X] has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended [date].

(The report should provide adequate explanation with respect to any reservation contained in the opinion together with, if relevant and practicable, the monetary effect.)

City Date   Chartered Accountant

Appendix 3

3. Following is an example of the opinion we form on the financial statements prepared by management of an agency.

I have audited the balance sheet of [Crown Agency X] as at [date] and the statements of income, retained earnings and changes in financial position for the year then ended. The [Crown Agency X]'s management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the [Crown Agency X] as at [date] and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

City Date Chartered Accountant