

# Agriculture, Food and Rural Revitalization

# 11

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## Main points

In this chapter, we continue to report 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 (CICA) on government transfers. We expect this project to clarify the accounting standards in this area and address the matters we raise in this chapter.

This chapter also includes the results of our audits of the Department, its special purpose funds, and its Crown agencies. We concluded that they had adequate processes to safeguard public resources and they complied with authorities governing their activities. Also, with the exception of the two funds noted above, their financial statements are reliable.

## Introduction

The mandate of the Department is to foster a self-sufficient and sustainable Saskatchewan agricultural and food sector; and healthy and diverse rural communities. Working with individuals, businesses, communities, and governments, the Department assists farmers and ranchers; encourages higher value production and processing; and promotes sustainable economic and social development in rural Saskatchewan.

## 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 agencies that the Government controls. This information is reflected in the Government's summary financial statements for the year ended March 31, 2003.

	<u>2003</u>	<u>2002</u>
	(millions)	
Agricultural expenditures by program:		
Crop insurance	\$ 1,126	\$ 374
Farm sector initiatives	88	306
Farm Land Education Tax Rebate Program	---	21
Farm income stability (NISA*)	50	47
Other	<u>64</u>	<u>89</u>
	<u>\$ 1,328</u>	<u>\$ 837</u>
Agricultural revenues by source:		
Federal Government	\$ 565	\$ 235
Producers' crop insurance premiums	86	67
Interest on loans and investments	7	11
Sales, services, fees, permits, and other	<u>36</u>	<u>44</u>
	<u>\$ 694</u>	<u>\$ 357</u>

\* Net Income Stabilization Account

The Department's 2002-2003 Annual Report contains information about the Department's revenues and expenditures. Revenues and expenses of the Department's special purpose funds and Crown agencies listed below are reported in the Public Accounts compendium (to view this report, see <http://www.gov.sk.ca/finance/paccts/paccts03/compendium/compintro.htm>),

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:

	<u>Year-end</u>
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Agri-Food Equity Fund (wound up February 2003)	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**

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 Department, its special purpose funds, and its Crown agencies with fiscal years ending on March 31, 2003.

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, we examine the supervisory work carried out by the Council regarding those agencies' financial statements, and their processes to safeguard public resources and comply with legislative authorities.

Our Office worked with the following appointed auditors:

- ◆ KPMG LLP
  - Saskatchewan Agricultural Stabilization Fund
  - Saskatchewan Crop Insurance Corporation
  - Crop Re-insurance Fund of Saskatchewan
  
- ◆ 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, its special purpose funds, and its Crown agencies had adequate rules and procedures to safeguard public resources;**
  
- ◆ **the Department, its special purpose funds, and its Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing; and**

- ◆ **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 Governments of Canada and Saskatchewan, and discussion with the Department's management.

## **Importance of financial statements**

Good financial reporting is essential to understand and assess financial performance of government agencies. Members of the Legislative Assembly (MLAs) and the public need useful information to understand and assess the performance of government agencies. Agencies 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 agencies 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 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 make incorrect assessments about the agency's financial performance.

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. The CICA continues to work on this project. Clarification of these standards will help to address the matters we raise in this chapter concerning the reliability of the financial statements.

## **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

SASF's 2003 Annual Report includes its financial statements for the year ended March 31, 2003. Those financial statements report revenues of \$70.1 million and expenses of \$74.7 million. The financial statements also report net financial assets of \$10.0 million at March 31, 2003.

### **Agri-Food Innovation Fund**

The purpose of this Fund is to enhance the diversification of the agri-food industry, support research and development, and encourage the creation of economic opportunities and jobs.

AFIF's 2003 Annual Report includes its financial statements for the year ended March 31, 2003. Those financial statements report net financial assets of \$5.7 million, revenue of \$0.2 million and a deficit for the year of \$5.5 million.

The Governments of Canada (Canada) and Saskatchewan agreed to share the costs of these programs. The Government of 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 and AFIF can only be used for the purposes of these programs. In addition, 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 and AFIF operate on a break-even basis except for the interest income earned on advances, which they may keep. Accordingly, these advances should be recorded as liabilities (i.e., as amounts owed back to Canada and Saskatchewan) until SASF and AFIF incurs program costs. When SASF and AFIF incurs program costs, they should deduct an equal amount from liabilities and record it as revenue to offset the program costs.

## **Reliability of the financial statements**

The financial statements of SASF and AFIF are not reliable.

SASF's 2003 financial statements understate revenue and overstate its annual deficit (i.e., annual loss) for 2003 by \$3.0 million. Also, the financial statements understate SASF's liabilities (what it owes to others) by \$4.4 million. This information gives readers of the financial statements the wrong message. The message given is that expenses exceed revenue by \$4.6 million and that SASF has \$10.0 million on hand that it can keep because it is no longer required to pay for future program costs. In fact, SASF's revenues were higher by \$3.0 million in 2003. In addition, it must either use \$4.4 million of the reported net assets to pay for future program costs or return the money to the General Revenue Fund (GRF).

AFIF's 2003 financial statements understate its revenues by \$5.5 million and overstate its deficit for the year by \$5.5 million. This information gives readers of the financial statements the wrong message. Since its inception, the Fund received \$28 million in advances from the GRF, which it recorded as revenue when received. To March 31, 2002, the Fund incurred \$22.5 million in related program costs. It incurred additional costs of \$5.5 million in 2003. The Fund should have recognized revenue of \$5.5 million from the GRF for the year ended March 31, 2003 when it incurred these remaining project costs.

The errors in SASF's and AFIF's financial statements result from the Department incorrectly recording advances from the GRF. 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 CICA. However, the Department incorrectly records money received from the GRF. 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, their only net assets should be interest earned on advances.

We also reported this matter in our 2002 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, they have a debt to the GRF.

On November 5, 2002, the Standing Committee on Public Accounts (PAC) considered this matter. PAC deferred a decision on our

recommendation pending the results of the CICA project that is examining accounting standards concerning government transfer payments.