

Crown Investments Corporation of Saskatchewan

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Main points

In this chapter, we report the results of the audits of Crown Investments Corporation of Saskatchewan (CIC) and the Capital Pension Plan (Plan) for the year ended December 31, 2003.

We concluded that the financial statements of CIC and the Plan are reliable. CIC had adequate processes to safeguard public resources and it complied with the authorities governing its activities except for two matters where clarification of the law is required. The Plan had adequate processes to safeguard public resources and it complied with the authorities governing its activities.

The Government should clarify the law to require CIC and its subsidiaries to get Order in Council approval before buying and selling real property through a subsidiary. Also, CIC should review the limits over which CIC and its subsidiaries must get Cabinet approval to buy and sell real property. It should seek changes where appropriate.

CIC should have its Act clarified, so that its stated mission of enhancing economic development in Saskatchewan is consistent with its legislation.

Introduction

Crown Investments Corporation of Saskatchewan (CIC) is the holding company for Crown corporations such as Saskatchewan Power Corporation, Saskatchewan Telecommunications, and SaskEnergy Incorporated. CIC is responsible for establishing the strategic direction for these corporations and for monitoring their performance. CIC's Board provides advice about them to Executive Council (Cabinet). CIC also manages the Capital Pension Plan (the Plan).

CIC's 2003 Annual Report contains two sets of financial statements. The first set shows CIC's financial results consolidated with its subsidiaries. The second set shows the financial results of CIC, the legal entity. The Legislative Assembly asked CIC to prepare the second set of financial statements to provide additional information on how CIC managed the assets entrusted to it by the Assembly.

CIC's 2003 consolidated financial statements show it had revenue of \$3.8 billion, net income of \$347 million, and held assets of \$7.9 billion.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for CIC and the Plan for the year ended December 31, 2003. Our Office worked with CIC's appointed auditor, KPMG LLP, to form our opinions using the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view this report, see our web site at <http://www.auditor.sk.ca/>). Our Office and KPMG LLP formed the following opinions.

In our opinion:

- ◆ the financial statements of CIC and the Plan are reliable;
- ◆ CIC and the Plan had adequate rules and procedures to safeguard public resources;
- ◆ CIC complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue

raising, spending, borrowing, and investing, except for two matters where clarification of the law is required; and

- ◆ **the Plan complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.**

Approval to buy and sell real property

CIC and most of its designated subsidiary Crown corporations¹ need Order in Council approval to buy and sell real property (land) when the amount exceeds a set limit.

Investment Saskatchewan Inc. (formerly CIC Industrial Interests Inc.), is wholly owned by CIC. Investment Saskatchewan Inc. was designated as a subsidiary Crown corporation on September 12, 2003, without any requirement to obtain an Order in Council before purchasing and selling real property. Prior to September 12, 2003, it was subject to CIC's limit, i.e., it needed Order in Council approval to buy and sell land over \$200,000. Accordingly, Investment Saskatchewan Inc. obtained the necessary approval when it sold potato storage facilities over \$200,000 prior to that date through its wholly owned subsidiary, Saskatchewan Valley Potato Corporation.

After September 12, 2003, Investment Saskatchewan Inc. sold a potato storage facility for \$900,000 through Saskatchewan Valley Potato Corporation. However, CIC officials told us that no Order in Council approval was obtained for this sale because no limit has yet been set for Investment Saskatchewan Inc.

CIC owns all of Investment Saskatchewan's common shares. In our opinion, a subsidiary of a parent company does not have greater powers than its parent. If a parent company could simply incorporate a subsidiary company to do something that the parent itself is not permitted to do, it would defeat the purpose of the Legislative Assembly imposing any limitations on the parent.

¹ A corporation (e.g., Saskatchewan Power Corporation, and Investment Saskatchewan Inc.), that is designated by Order in Council as a subsidiary Crown corporation of CIC, and subject to *The Crown Corporations Act, 1993*.

In our 2001 Spring Report, we reported that Saskatchewan Valley Potato Corporation purchased real property valued at \$5 million without Order in Council approval. We recommended that the Government should clarify the law to require CIC and its Crown corporations to get Order in Council approval before buying and selling real property through a subsidiary. The Standing Committee on Crown Corporations asked CIC to review its procedures and prepare a report on changing the legislation. CIC has not yet responded to the Committee's request.

In addition, CIC and its subsidiaries have varying limits over which they must get approval to buy and sell real property. They should be required to get the same approvals unless there is appropriate rationale for different limits.

- 1. CIC should review the limits over which CIC and its subsidiaries must get Order in Council approval to buy and sell real property, either directly or through a subsidiary. CIC should seek changes where appropriate.**

CIC's Act needs clarification

During 2003, CIC participated with the Department of Industry and Resources in paying for the Government's "Our Future is Wide Open" advertising campaign. CIC paid \$2 million (2002-\$0.7 million) of the campaign's costs. Management told us that these expenditures were necessary for CIC to fulfil its stated mandate of enhancing economic development in Saskatchewan.

CIC's authority is limited to the provisions in its governing legislation. CIC's objects and purposes are set out in *The Crown Corporations Act, 1993* (the Act). They are as follows:

- ◆ CIC is the holding company for all subsidiary Crown corporations and shall exercise its supervisory powers granted by this Act in the interests of all Saskatchewan residents; and
- ◆ CIC is the agency for making and administering, on behalf of the Government of Saskatchewan, the investments authorized by this Act or any previous *Crown Corporations Act*.

CIC's 2003 Annual Report states that its mission includes enhancing Saskatchewan's long-term economic growth and diversification through Crown corporations. However, the Act does not explicitly state that this is CIC's mandate. It is not clear whether making expenditures for the general purpose of enhancing economic development is consistent with CIC's objects and purposes. Accordingly, it is not clear whether CIC has the authority to make expenditures related to broad advertising campaigns, such as the "Our Future is Wide Open" campaign.

2. CIC should ensure its stated mission and its legislation are consistent.

In April 2004, the Government introduced amendments to *The Crown Corporations Act, 1993*. One amendment to CIC's powers provides that "CIC may establish, operate, administer, or manage programs or policies that promote or enhance business opportunities in and for Saskatchewan."

Our work continues

We have not yet completed all of our work regarding the expenditures made by the Government for the "Our Future is Wide Open" campaign. We are examining how this program was co-ordinated by the Department of Industry and Resources and CIC. As part of this work, we are examining whether there is adequate support for payments and what the Government obtained for the money it spent. We will report our findings in a future report.