Finance

5

Main points

The General Revenue Fund's (GRF) 2005 financial statements are not reliable because Finance used accounting practices that are not in accordance with Canadian generally accepted accounting principles for the public sector. They do not report the GRF's pension liability of $4.1 billion, and understate pension costs by $120 million. The financial statements also inappropriately report a $383 million transfer to the Fiscal Stabilization Fund as an expense and $44 million as loans receivable from Crown corporations.

We have significant concerns with the GRF financial statements because the Government uses the GRF's annual surplus or deficit as one of its key performance indicators. The Government now presents a summary financial plan for the entire Government as part of the Budget and Performance Plan Summary. We encourage the Government to report on its performance using this summary financial plan together with its summary financial statements, rather than using the GRF statements.

Finance needs a written, tested, and approved business continuity plan to help ensure that it can continue to provide critical services in the event of a disaster.

We note that while some pension plans administered by Finance have improved their governance processes, others have made no significant progress in improving their governance processes.

We also report on the Public Employees Pension Plan (Plan). The Plan needs to improve its information technology security policies. As well, the Plan had difficulty implementing its new computerized pension administration system on time, because it did not adequately document the project's risks or management's plans to reduce these risks.

As well, we report that the performance information reported by Finance in its *Annual Report 2004-2005* is reliable and understandable.

Introduction

The Department of Finance (Finance) helps the Government and the Legislative Assembly manage and account for public money. Finance controls spending from the General Revenue Fund (GRF) and ensures the GRF receives all revenue due to it. In addition, Finance prepares the Government's summary financial statements.

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
- leads the Government's accountability project

In 2005, Finance spent $1.1 billion and collected revenue of $6.2 billion. Revenue includes $277 million of debt costs recovered from Crown corporations.

It is important that the Members of the Legislative Assembly (MLAs) and the public know the key risks facing a government department. Also, they should receive information on these risks to understand and assess a department's performance. We think sharing our understanding of the key risks will help the MLAs and the public better understand and assess a department's performance.

We identified the following key risks Finance 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 Finance
- ♦ manage several government pension and benefit plans
- ♦ ensure designated government entities comply with Treasury Board directives

Special purpose funds and Crown agencies

Finance is responsible for the following special purpose funds and agencies.

<u>Year-end March 31</u>

General Revenue Fund (GRF)
Fiscal Stabilization Fund[1]
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund
Judges of the Provincial Court Superannuation Plan

[1] Finance 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.

Year-end December 31

Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Extended Health Care Plan for Retired Employees
Extended Health Care Plan for Certain Other Retired Employees
Municipal Employees' Pension Commission
Municipal Financing Corporation of Saskatchewan
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[2]

Financial Overview

The following is a list of Finance's major programs and spending for the year ended March 31, 2005. The financial information is from the *Estimates 2004-2005, Public Accounts 2004-05 Volume 1 – Main Financial Statements* (see http://www.gov.sk.ca/finance/paccts) and Finance's *Annual Report 2004-2005.*

	Original Estimates	Actual
	(in millions of dollars)	
Interest-GRF Debt	$ 614	$ 579
Interest-Crown Corporation Debt	280	277
Total Interest on Debt	894	856
Pensions and Benefits	204	205
Administration	40	37
	$ 1,138	$ 1,098

[2] The Government denied us access to this Crown agency: therefore, we could not audit the agency (see Chapter 8 of our 1999 Fall Report-Volume 2 for further discussion of the matter).

The following is a list of Finance's major revenue sources.

	Original Estimates	Actual
	(in millions of dollars)	
Individual Income Taxes	$ 1,292	$ 1,329
Interest – Crown Corporations	280	277
Sales Taxes	1,016	985
Canada Health Transfer	466	499
Canada Social Transfer	259	263
Transfers – Equalization	443	582
Fuel Taxes	363	361
Corporation Taxes	607	639
Tobacco Taxes	184	187
Income from Government Entities	664	669
Motor Vehicle Fees	127	122
Other	121	306
	$ 5,822	$ 6,219

Our audit conclusions and findings

This chapter contains our audit conclusions and findings on Finance, its special purpose funds, and Crown agencies with years ending March 31, 2005.

The Public Employees Pension Board appointed Meyers Norris Penny LLP, Chartered Accountants as auditor for Public Employees Pension Plan (PEPP). Our Office worked with Meyers Norris Penny 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/). Meyers Norris Penny did not participate in our audit of the new pension administration system.

In our opinion:

- **the Government's summary financial statements included in the Public Accounts 2004-2005 Volume 1 are reliable**

- **the financial statements for the special purpose funds and agencies listed above that we audited are reliable except for the GRF**

- **the GRF's financial statements included in the Public Accounts 2004-05 Volume 1 are reliable except that transfers to the Fiscal Stabilization Fund, loans receivable from Crown corporations, and pension costs are not properly recorded**

- **Finance and its agencies that we audited had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**

- **Finance and its agencies that we audited complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing except for the matters reported in this chapter**

We also report the results of our audit on the performance information reported by Finance in its *Annual Report 2004-2005 and* the findings of our follow-up of audit recommendations on supporting a learning culture.

In addition, the law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2005, the Government approved spending $153.7 million by special warrant. It later included these special warrants in an appropriation act.

GRF financial statements not reliable

Our auditor's report on the GRF's financial statements for the year ended March 31, 2005 warns readers that the financial statements do not include all the Government's financial activities. Therefore, readers should not use the GRF's 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's financial statements for the year ended March 31, 2005 includes three reservations. The financial statements are not reliable because they do not properly record transfers to the Fiscal Stabilization Fund, loans receivable from Crown corporations, and pension costs.

The combined effects of these reservations are as follows:

- the transfer to the Fiscal Stabilization Fund of $383 million overstates expenses by $383 million

- transfers to Crown corporations, improperly recorded as loans, understate expenses by $12 million

- pension expenses are understated by $120 million

- liabilities are understated by $4.1 billion, assets by $0.7 billion, and accumulated deficit by $3.4 billion

As well, the financial information reported in Volume 2 of the Public Accounts, 2004-05 and some department annual reports is not reliable because it is based on information reported in the GRF financial statements.

For the reservation related to transfers to Crown corporations improperly recorded as loans, Saskatchewan Agriculture, Food, and Rural Revitalization's 2004-2005 annual report understates crop insurance expenses by $12 million.

For the reservation related to pension expenses, Saskatchewan Learning's 2004-2005 annual report understates expenses by $65 million for teachers' pensions and benefits. Saskatchewan Finance's 2004-2005 annual report understates expenses by $55 million for pension plans managed by the Public Service Superannuation Board.

Fiscal Stabilization Fund reservation

The Government records transactions between the GRF and the Fiscal Stabilization Fund (Fund) as GRF revenue or expense. The substance of the transactions between the GRF and the Fund is that amounts owed by the GRF to the Fund must be repaid to the GRF from the Fund. Canadian generally accepted accounting principles (GAAP) for the public sector do not allow the GRF to record changes in the amounts due to the Fund as revenues or expenses of the GRF. The Government acknowledges that it does not follow GAAP for transfers to and from the Fund.

The GRF's 2005 financial statements show a liability of $749 million owed to the Fund, an increase of $383 million from 2004. The GRF records this increase as an expense. It is not appropriate to record the $383 million as an expense because the Fund must return it to the GRF. Instead of recording an expense of $383 million, the GRF should show an asset of $749 million owed from the Fund.

The effects of not properly reporting this asset are as follows:

- expenses are overstated by $383 million
- surplus for the year is understated by $383 million
- assets are understated by $749 million
- accumulated deficit is overstated by $749 million

The Legislative Assembly created the Fund in April 2000. The Fund's stated purpose 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 annual surplus (deficit) and accumulated deficit. The Government's total accumulated deficit of $4.4 billion is unaffected. Therefore, the only consequence of recording these transactions in the GRF's financial statements is that the actual amount of the GRF's surplus has been changed to another amount chosen by the Government. This is worrisome because the Government uses the GRF's annual surplus or deficit as one of its key performance indicators.

In previous years, we recommended that the GRF's financial statements should record transfers to the Fund as an asset, not as an expense and 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's financial statements record transfers to and from the Fiscal Stabilization Fund in accordance with Canadian generally accepted accounting principles for the public sector.

Loans receivable reservation

The GRF's financial assets include loans receivable from Crown corporations of $3.6 billion. In one case, the corporation can only repay the loans due to the GRF if the Government gives it the money from the GRF to do so. GAAP for the public sector requires the Government to record such transactions as expenses and not as loans receivable.

At March 31, 2005, the GRF financial statements include an amount due from Saskatchewan Crop Insurance Corporation that it cannot repay unless the Government gives it the money to do so. The effects of not properly recording this transaction are as follows:

- expenses are understated by $12 million
- surplus for the year is overstated by $12 million
- loans receivable are overstated by $44 million
- accumulated deficit is understated by $44 million

In our 2003 Report – Volume 3, we recommended that the Government account for loans to Crown corporations in accordance with GAAP for the public sector.

In September 2004, PAC considered this matter and agreed with our recommendation but noted that PAC believes that the Saskatchewan Crop Insurance programme should continue to operate as it currently does.

We continue to recommend that the Government account for loans to Crown corporations in accordance with GAAP for the public sector.

Pension costs reservation

GAAP for the public sector requires that pension liabilities be recorded in the financial statements.

The GRF is responsible for the liabilities of several pension funds but does not record these liabilities in its financial statements. 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 its 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 Government acknowledges that it does not follow GAAP for pension costs and liabilities.

The effects of not properly recording pension costs are as follows:

- pension expenses are understated by $120 million
- surplus for the year is overstated by $120 million
- pension liabilities and accumulated deficit are understated by $4.1 billion

In previous years, we recommended that the Government account for pension costs in the GRF's financial statements in accordance with GAAP 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 GAAP for the public sector for pensions.

We continue to recommend that the General Revenue Fund's financial statements record pension costs in accordance with GAAP for the public sector.

Business continuity plan required

Finance needs a written, tested, and approved business continuity plan[3] to help ensure that it can continue to provide critical services in the event of a disaster.

[3] **Business Continuity Plan** - Plans by an organization to respond to unforeseen incidents, accidents, and disasters that could affect the normal operations of the organization's critical operations or functions.

Disaster Recovery plan (DRP) - Plans by an organization to respond to unforeseen incidents, accidents and disasters that could affect the normal operation of a computerized system (also known as **Contingency Plan**). A DRP or contingency plan is only one component of the Business Continuity plan.

Finance’s critical services include controlling spending from the GRF, managing the Government’s debt, and collecting all revenue due to the GRF.

Finance must provide these services even if a disaster disrupts its ability to operate and provide services in the normal manner. Without an adequate business continuity plan, Finance is at risk of not being able to provide critical services in timely manner.

Business continuity plans should:

- be supported by management. Management should make the required resources available to create and maintain the business continuity plan.
- be based on a threat and risk assessment. This would include identifying and ranking Finance’s critical services.
- include plan activation and notification procedures; emergency procedures that would be used in the event of a disaster; and steps for the recovery and restoration of critical services.
- be documented, approved by management, and made easily accessible when the plan needs activation.
- be tested initially and on an on-going basis.
- include policies for on-going maintenance and updating of the plan.

Finance has documented some parts of a business continuity plan but does not have a complete plan. For example, it has documented and tested a disaster recovery plan for key information systems such as its central payment system. However, it has not developed or documented all the key components of a business continuity plan. For example, Finance needs to identify and rank its critical services and document in a detailed business continuity plan the steps for restoration of critical services such as the collection of the provincial sales tax. Also, Finance needs to ensure it periodically updates and tests its business continuity plan.

1. We recommend that the Department of Finance prepare a complete business continuity plan.

Management told us it is working to finalize a complete business continuity plan but believe it would be able to continue providing critical services in the event of a disaster.

Annual pension costs not included in Estimates

In previous reports, we reported that the Assembly and the public are unable to assess pension costs properly 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, 2005 are as follows:

- budgeted operating expenses of $6.1 billion are understated by $128 million
- the GRF's budgeted surplus of $67,000 is overstated by $128 million
- the budgeted accumulated deficit of $5.5 billion is understated by $4.1 billion

In previous years, we recommended that Finance 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.

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. The Assembly may make different decisions if the budget included the correct amount of pension costs for the year.

The Government now presents a summary financial plan for the entire Government as part of the Budget and Performance Plan Summary. We are pleased to note the summary financial plan includes total estimated pension costs.

Pension Plan Governance Processes

Finance through the Public Employees Benefits Agency administers a number of pension and benefit plans.

In our 2003 Report – Volume 1, we reported that the Government's pension plans need to improve their governance processes. We recommended that the pension plan boards develop and implement strategic plans, define their responsibilities, define and communicate their financial and operational information needs, and develop and implement communication plans.

In September 2004, PAC considered this matter and concurred with our recommendations.

As part of our 2005 audit, we assessed progress towards improving governance processes for the pension plans. Some of the pension plans have made significant progress in improving their governance processes. However, some plans have not made significant progress in improving their governance processes.

For the Judges of Provincial Court Superannuation Plan, we found that Finance has not yet developed a strategic plan that includes the goals and objectives, a summary of risks faced by the Plan and its members, and the key strategies to manage those risks.

For the Public Service Superannuation Plan, we found that the Public Service Superannuation Board (Board) has not yet developed a strategic plan that includes goals and objectives, a summary of risks faced by this Plan and its members, and the key strategies to manage those risks. Nor has the Board clearly set out specific responsibilities and an educational plan for board members, defined and communicated its financial and operational needs to oversee the Plan, and developed and implemented a written communication plan. Because the Board has not addressed its governance processes, it has not assessed its own effectiveness.

These Plans are significant to Finance, plan members, and the public. The Public Service Superannuation Plan has an unfunded liability of $1.6 billion and the Judges of Provincial Court Superannuation Plan has an unfunded liability of $51 million. These liabilities are the GRF's responsibility.

We continue to recommend that Finance develop and implement a strategic plan for the Judges of the Provincial Court Superannuation Plan that includes its goals and objectives, a summary of the risks faced by the plan and its members, and the key strategies to manage those risks.

We continue to recommend that The Public Service Superannuation Board:

- develop and implement a strategic plan for the Public Service Superannuation Plan that includes the Plan's goals and objectives, a summary of the risks faced by the plan and its members, and the key strategies to manage those risks
- clearly set out the responsibilities of the board including clear delegation of authority and an education plan for board members
- define and communicate the financial and operational information that the Board needs to oversee the Plan
- develop and implement written communication plans
- establish policies for periodic governance self-assessment

Public Employees Pension Plan

The Public Employees Pension Board (Board) is responsible for *The Public Employees Pension Plan Act*. The Board's primary objective is to provide retirement benefits to members in accordance with the law.

The Board manages the Public Employees Pension Plan (PEPP), a defined contribution pension plan.

In 2004-2005, PEPP received contributions of $65 million from employees and $69 million from employers. It also earned investment income of $123 million and the market value of its investments increased by $123 million. At March 31, 2005, PEPP held assets of $3.3 billion. PEPP's Annual Report included its audited financial statements.

IT security policies and procedures need strengthening

PEPP needs to prepare, approve, and implement information technology (IT) policies and procedures for granting, removing, and monitoring user access to systems and data.

PEPP needs IT policies and procedures to ensure vital information is protected, accurate, complete, authorized, and available when needed. It also must monitor user access to ensure only authorized users access systems and data.

PEPP has no written policies and procedures for granting or removing access to vital information and programs. PEPP also does not have written procedures to monitor who has access to what systems and if that access is still appropriate. When staff has no clear guidance for granting, removing, and monitoring user access, there is a higher risk of unauthorized disclosure of information, reliance on incomplete and inaccurate information, and the loss of vital information.

2. We recommend that the Public Employees Pension Plan approve and implement information technology policies and procedures for granting, removing, and monitoring user access.

New pension administration system

PEPP is replacing its existing computerized pension administration system. PEPP expects that the new system will improve the allocation of earnings to members, allow for more investment options, and allow members direct access to account information via the Internet. PEPP also expects that the new system will increase processing efficiency.

Planned implementation is in two phases. Phase 1 will provide better management of members' accounts and Phase II will allow members to access their account information using the Internet.

PEPP and the Capital Pension Plan have agreed to share the project costs with PEPP paying approximately 70% of the system costs. PEPP estimated the total costs at $4.2 million. The budget for Phase I was $3.6 million.

PEPP is late with the new system. PEPP planned to implement Phase I in November 2004. In February 2005, PEPP revised the date to July 2005. PEPP implemented Phase 1 in August 2005 at a cost of $3.7 million.

The supplier did not deliver the system on time. When delivered, the system did not meet PEPP's requirements. PEPP selected the system in December 2003. At that time, the system was still in test stage. The supplier did not complete testing and release the system until April 2004. Selecting a system prior to its completion increased the risk that the system would not meet requirements or be available on time.

Processes to manage information technology projects

Information technology projects are risky. Studies show most projects are late, over budget, and do not meet requirements. To overcome the risks associated with information technology projects, agencies must have adequate processes to:

- maintain management and stakeholder commitment to the project
- define, measure, and report on the realization of the project's benefits
- ensure good project management processes are used

We used the project management processes set out in Exhibit 1 to assess the adequacy of PEPP's processes.

Maintaining management and stakeholder commitment to the project

We expected the Board and management to provide strong commitment throughout the project. Commitment includes actively overseeing, funding, and promoting a project. When a project lacks commitment from senior management and the Board, expected benefits may not be realized and the project may not be delivered on time and within budget.

PEPP used a strong organizational structure to oversee the project including setting up a project steering committee and hiring a professional project manager. The Board approved all major decisions. The steering committee and the Board received good and timely information at the start of the project.

The period from May 2004 to December 2004 was the most critical to the project's success. PEPP expected to incur significant project costs and receive the system from the supplier during that period. Project risk increased significantly because the supplier was late in delivering the system and it did not work properly when delivered. Therefore, PEPP needed strong monitoring processes to manage the project.

PEPP did not maintain strong processes to monitor the project. Although the steering committee met bi-monthly to review the project and discuss key issues, it did not receive detailed status reports. The Board received only two updates during the period. Both updates contained only limited information on the project's status and costs, and the information did not fully reflect the project risks.

A lack of strong monitoring processes increased the risk that the project would be late and over budget.

The steering committee started meeting weekly in November 2004. The project manager now provides weekly written status reports to the committee. The Board began receiving better information in February 2005. The Board now receives relevant and timely information on the status of the project and plans to receive monthly updates in the future.

The increased monitoring and regular reporting to the Board are positive changes. The project manager, steering committee, and Board need to continue monitoring progress to ensure completion as planned.

Defining, measuring, and reporting on the realization of project's benefits

We expected PEPP to develop processes to assess how well it realizes the expected benefits from the new system. For any system to be a success, an agency must clearly define the expected benefits and measure actual results.

PEPP had adequate processes to define the expected benefits and prepared a business case at the start of the project. The business case identified the need for a new system to improve the allocation of earnings to members, allow for more investment options, allow members direct access to account information via the Internet, and increase processing efficiency. The business case also identified current transaction levels that PEPP plans to use in determining whether it realized the expected benefits from the new system. Overall, PEPP had adequate processes to define the expected benefits. While PEPP had processes to define the expected benefits, it has not developed processes to measure the benefits received. Without measuring the benefits, PEPP will not know if the project achieved the expected benefits.

Ensure good project management processes

Project management is the processes necessary to bring together the skills, tools, and resources to achieve the objective. Ultimately, a project's success depends on the project team having the necessary skills, knowledge, and experience to get the job done.

In this section, we compare PEPP's project management with those good project management processes outlined in Exhibit 1.

Managing project scope

We expected PEPP to use strong scope management processes throughout the project including processes to determine user needs, how to meet the needs, and ensuring delivery of the needs.

PEPP had good processes to identify user needs by doing needs assessments and documenting its requirements in a business case. PEPP also ensured that the proposed solutions would meet the needs identified. This included processes for requesting and evaluating proposals from potential suppliers. The Board approved all major decisions relating to the scope and timing at the beginning of the project.

Even with strong processes at the start of a project, changes may be required during the project. Therefore, PEPP also needed processes to identify, document, and approve project changes. These ensure the project stays on track with delivery on time and on budget.

PEPP had adequate processes to approve changes but did not follow those processes from January 2004 to February 2005. For example, during this period, PEPP did not follow its processes when it made changes to project resources and the completion of project tasks.

3. We recommend that the Public Employees Pension Plan document and approve all future changes to the computerized pension administration system.

Management told us that it plans to approve all future changes.

Managing risk

We expected PEPP to have strong processes to assess key risks and respond to reduce the risks to an acceptable level.

Risk management includes processes to identify, evaluate, plan, and respond to risks. We note that PEPP hired external contractors to help manage risks related to testing the new system, communicating with stakeholders, and converting data. PEPP also attempted to manage some issues as they became aware of them. However, PEPP lacked adequate processes to identify and mitigate all key risks.

The new system is a significant project with many key risks. Examples of key risks include the potential inability of the supplier to deliver a quality system on time and meet user needs. Risks can change throughout a project. Therefore, it is important to document management's assessment of the risks and action plans to reduce these risks to an acceptable level.

Without strong risk management processes, key risks may not be identified and resolved resulting in project delays or increased costs.

4. **We recommend that the Public Employees Pension Plan document its risk assessments and action plans to reduce the risks to an acceptable level for the computerized pension administration system.**

Managing time

We expected PEPP to have strong time management processes for implementing the new system on time. Time management includes the processes to plan, schedule, and control the project's activities to get the project done on time.

PEPP had strong processes for planning and scheduling the work. This included detailed plans for who would perform what tasks and when to meet planned dates. PEPP also tracked time spent by employees to determine the full cost of the project. However, PEPP did not compare actual time spent on a task to the plan. This made it more difficult for PEPP to identify tasks taking longer then expected and predict accurately the project's completion date.

PEPP resolved these issues by defining the key deliverables still outstanding and providing reports measuring progress. These steps should allow PEPP to monitor the project's status.

Managing quality

We expected PEPP to have processes to evaluate if the system would meet user needs. PEPP needs to ensure there is adequate testing to pick up any system problems. This would help PEPP in meeting its objective of having the new system meet user needs. Defects and rework could result in delays or a poor quality system.

PEPP prepared adequate testing plans. These plans outlined what would be tested and by whom. PEPP also has strong processes for identifying and tracking problems. As noted above, the quality of the product that the supplier provided was not acceptable. This resulted in a significant number of problems. It also resulted in additional resources for testing.

PEPP followed strong processes by having an independent evaluation of testing performed by a consultant. PEPP followed up on the issues the consultant identified in the evaluation and took corrective action.

Weak quality management processes could result in a defective product. By continuing to follow strong quality management processes, PEPP increased the likelihood of delivering a quality system.

Our future plans

Phase II will provide enhanced features like allowing members to access information on their accounts via the Internet. PEPP expects to implement Phase II in 2006.

We plan to assess whether PEPP has adequate controls to protect the computerized pension administration system from unauthorized access, unscheduled downtime, and inaccurate processing for the period from August 15, 2005 to October 31, 2005.

We have completed our research and developed general criteria for assessing the adequacy of PEPP's controls to protect the system. Criteria are reasonable and attainable standards of performance and control that we will use to assess the adequacy of systems and practices. We shared our general criteria with PEPP's management. Management agreed with our general criteria.

The criteria set out in Exhibit 2 are based on our research of the *Trusted Services Criteria and Principles* authored by the CICA and international standards, literature, and reports of other legislative auditors.

We also plan to follow up and report if PEPP achieves the expected benefits from the new system.

Exhibit 1—Project management framework

The three general criteria of a strong project management climate are:

- maintain management and stakeholder commitment to the project
- defining, measuring, and reporting on the realization of the project's benefits
- ensure good project management processes are used

We used the Project Management Institute's (PMI) standard titled *A Guide to the Project Management Body of Knowledge* as the management framework to support the above three criteria. The PMI standard identifies the following project management processes.

1. *Integration management* – the processes required to ensure that the various elements of a project are properly co-ordinated.

2. *Scope management* – the processes involved in determining what the users need, how the needs will be met and verifying if they are met.

3. *Time management* – the processes to plan, schedule, and control the project's activities to help get the project done on time.

4. *Cost management* – the processes to plan, estimate, and control the project costs.

5. *Quality management* – the processes needed to evaluate if the project is managed well and meets the stakeholders' needs.

6. *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.

7. *Communication management* – the processes, including the organizational structure, used to ensure the timely and complete creation, movement, and storage of information.

8. *Risk management* – the processes to identify, evaluate, plan, and respond to risks.

9. *Procurement management* – the processes to decide what to contract for tendering and selecting the best contractor; and negotiating, managing and closing the contract.

Exhibit 2—Audit Criteria

AUDIT CRITERIA

PEPP should have control processes to protect CPAS from:

1. **unauthorized access**
   - 1.1. Responsibilities are clearly defined
   - 1.2. User access controls protect CPAS from unauthorized access
   - 1.3. Physical security controls protect CPAS from unauthorized access
2. **unscheduled downtime**
   - 2.1. System and data backups occur and are tested
   - 2.2. Disaster recovery plans are implemented and tested
3. **inaccurate processing**
   - 3.1. Management has policies and procedures for managing CPAS
   - 3.2. Management has processes to ensure CPAS is operating as planned (e.g. system interface).
   - 3.3. Management has processes for converting data
   - 3.4. Management has change management processes
   - 3.5. Management monitors CPAS

The Public Service Superannuation Board

The Public Service Superannuation Board (Board) is responsible for the administration of *The Public Service Superannuation Act* and other relevant laws. The Board's primary objective is to provide pensions to employees who retire and to dependants of deceased pensioners and employees in accordance with the law.

The Board manages the Public Service Superannuation Plan (Plan), which 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 2004-2005, the Plan received contributions of $4.7 million from employees and $93.5 million from the GRF. At March 31, 2005, the Plan held assets of $16.9 million and had liabilities of $1.6 billion.

Retired members' pensions

The Board needs information about retired members of the Plan who are receiving a pension and have returned to work for the Government. The

Board needs this information to ensure it pays pensions in accordance with the law.

Requirements for stopping the pensions of retired members who return to work for the Government are set out in section 27 of *The Superannuation (Supplementary Provisions) Act* (Act). The Act allows retired members to work as temporary, casual, or provisional employees for up to six months per year without a reduction in their pension. However, the Act requires the Board to stop the pension of a retired member who works for the Government for more than six months in a year. The Act also requires the Board to stop the pension of a retired member that the Government re-hires as a permanent employee when that member starts work.

The Board does not know if retired members are working for the Government. The Board relies on retired members notifying the Board upon re-employment with the Government. As a result, the Board cannot ensure that all pensions paid comply with the law. Accordingly, we cannot determine if the Board complied with section 27 of the Act.

We reported this matter in our 2004 Report – Volume 3 and in previous reports. In November 2001, PAC considered this matter and concurred with our recommendation.

We continue to recommend that the Public Service Superannuation Board establish rules and procedures to ensure that all retired members who are receiving a pension and return to work for the Government are paid in accordance with the Act. Alternatively, the Board should seek changes to the Act.

Audit of reliability of performance information

These observations explain our opinion on the reliability of selected performance information in the Finance *Annual Report 2004-05.* We congratulate Finance for its leadership in reporting audited performance information.

Public reports to the Legislative Assembly help the Government to account for its performance. Reliable performance information supports credibility, trust, and informed debate.

In 1999, the Government adopted a performance management framework to make it more accountable to the Assembly and the public. The framework expects annual reports to explain departments' performance. Cabinet appointed Finance to lead this initiative and provide guidance to all departments. We chose to work with Finance because of its central agency role to guide other departments toward better annual reports.

When an agency controls how it collects, analyzes, and stores information, it enhances the reliability of its public reports. Auditing the reliability of performance information fosters accurate, complete, credible, and understandable reports. Audits may also identify ways to improve how the agency collects and manages its information.

Auditors provide opinions on the reliability and relevance of both financial and non-financial reports to the public. For example, in the public sector, auditors in Australia and the United Kingdom began auditing non-financial performance information in the 1980s. Our Office began in 2002 to provide legislators with assurance on the reliability of selected non-financial performance reports.[4] In the future, we plan to provide assurance more often on the reliability of performance information reported to the Assembly.

Objective

The objective of this audit was to provide an opinion on the reliability of information for the performance measures related to Goal 4 reported in the Finance *Annual Report 2004-2005.* The audit did not examine the appropriateness or relevance of the goals, objectives, or measures set by Finance. The performance measures are set out in Exhibit 3.

[4] Information Services Corporation, March 2004 Schedule of performance information (balanced scorecard) in *2003 Annual Report*, and June 2002 *Special Report to the Standing Committee on Crown Corporations* Department of Health 2002 and 2004 *Saskatchewan Comparable Health Indicators Report*.

Exhibit 3—Finance Goal 4 Performance Measures

Goal 4 (Saskatchewan Finance provides excellent services to its clients)

Objective 1 – *Accurate and timely information and services*

Performance measures:

- per cent of businesses, which collect taxes on behalf of government, that are satisfied with the Department's quality of service
- per cent of businesses, which collect taxes on behalf of government, that are satisfied with the Department's timeliness of responses, refunds and adjustments

Objective 2 – *Ease of tax compliance*

Performance measures:

- number of businesses that filed returns on-line
- number of farmers that applied for fuel tax rebates on-line

Source: 2004-2005 Saskatchewan Provincial Budget Performance Plan – Saskatchewan Finance.

Criteria and what we did

To do our audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants. As required by these standards, we asked Finance to comment on and agree to the criteria that formed the basis of the audit (Exhibit 4).

We examined the controls Finance uses to protect the reliability of its information. We tested whether the report accurately reflected Finance's actual performance results. In addition, we evaluated the overall presentation of the Goal 4 performance information.

Throughout the audit, we recommended ways to make the reported performance information more understandable and reliable.

Exhibit 4—Audit criteria to assess reliability of performance information

For information on performance measures to be adequately reliable, the Department should have processes to ensure that the information reported:

1. Is reasonably accurate and complete
   - 1.1. is free from significant error
   - 1.2. is free from significant omissions
   - 1.3. is produced by systems that control quality

2. Is verifiable
   - 2.1. states time period covered
   - 2.2. discloses data source(s) and any data limitations
   - 2.3. explains calculation of measure
   - 2.4. explains if measure is comparable to prior years' measure

3. Is understandable
   - 3.1. is appropriately explained
   - 3.2. compares performance to prior or expected performance
   - 3.3. discloses unusual events or circumstances impacting results

Conclusion

The information in annual reports is management's responsibility. The auditor's responsibility is to express an opinion, based on the audit, on whether the performance information is reliable and understandable.

We concluded that the performance information reported by Finance in the Measurement Results sections for Goal 4 of its *Annual Report 2004-2005* is in all material respects reliable, and understandable.

The performance information reported for Goal 4 measures is in accordance with the reporting principles described by management. On pages 3-4 of its *Annual Report 2004-2005,* Finance stated the reporting principles it used to achieve reliable information and our audit opinion.

Exhibit 5 reproduces our audit opinion. The published report is at http://www.gov.sk.ca/finance/annreport/annualreport20042005.pdf.

Exhibit 5—Audit opinion on reliability of performance information

To the Members of the Legislative Assembly of Saskatchewan

I have audited the performance information reported by the Department of Finance in the Measurement Results sections for Goal 4 of this Annual Report. The information is prepared in accordance with the principles for reliability and understandability described in management's representation on page 3. The information is the responsibility of the Department's management. My responsibility is to express an opinion on the reliability and understandability of the 2004-05 performance information based on my audit. Comparative information for prior years has not been audited. My audit was not designed to provide assurance on the appropriateness or relevance of the goals, objectives, or measures set by the Department of Finance.

I conducted my examination 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 whether the information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the performance information and related disclosures. An audit also includes assessing the principles used and the significant judgments made by management, as well as evaluating the overall presentation of the performance information.

In my opinion, the performance information reported by the Department of Finance in the Measurement Results sections for Goal 4 of this Annual Report is, in all material respects, reliable, understandable, and in accordance with the principles for reliability and understandability described in management's representation on page 3.

Follow-up—supporting a learning culture for public reporting

In our 2002 Spring Report (pages 93-108), we concluded that Finance adequately supported a learning culture to improve public performance reporting by departments with two exceptions. We made two recommendations.

On October 24, 2002, the Standing Committee on Public Accounts concurred with the recommendations.

We recommended that Finance give departments a multi-year timetable with targets for incremental improvement in performance plans and reports of results.

In 2003, Finance created a timetable to guide gradual improvements in all departments' public plans and reports.

We recommended that Finance be proactive to establish a web site or intranet among departments to communicate best practices from research and innovations for improved performance management and reporting.

At the time of our follow-up in October 2005, Finance's public web site, provided departments with guidelines for planning and reporting. The web site listed responses to frequently asked questions. For example, Finance outlines the Government policy for handling reports about multi-department strategies such as *KidsFirst*. The web site also listed Internet links to the web sites of agencies in Canada and the United States that provide advice or that use sound practices for public reporting.

Sharing these resources is important as it saves time and money. The web site creates a central focus for departments to share resources that they find helpful. We encourage Finance to make these resource materials more visible on its web site for easy access, and to continue to share innovations for improving performance management and reporting.