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## **Main points**

In this chapter, we report the results of the audit of the Department of Agriculture, Food and Rural Revitalization (Department) and the special purpose funds and agencies for which it is responsible.

For the audits that are complete and where we participated in the audit, we concluded that the financial statements of the Department's special purpose funds and agencies are reliable. The Department and its agencies complied with the authorities governing their activities. The Department and its agencies had adequate processes to safeguard public resources except as noted below.

For the Agri-Food Innovation Fund and the Pastures Revolving Fund, the Department needs to improve its processes to ensure that it maintains accurate financial information to prepare the Funds' financial statements.

## Introduction

The mandate of the Department of Agriculture, Food and Rural Revitalization (Department) is “to foster a commercially viable, self-sufficient, and sustainable agriculture 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.”<sup>1</sup> Effective April 2005, the Department’s name changed to the Department of Agriculture and Food.

## 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. The Government’s summary financial statements for the year ended March 31, 2005 reflect this information.

	2005	2004
	(in millions of dollars)	
Agriculture expenditures by program:		
Crop insurance	\$ 473	\$ 421
Farm stability	238	196
Other	<u>69</u>	<u>85</u>
	<u>\$ 780</u>	<u>\$ 702</u>
Agriculture revenues by source:		
Federal Government	\$ 255	\$ 195
Producers’ crop insurance premiums	109	126
Sales, services, fees, permits, and other	42	42
Interest on loans and investments	<u>2</u>	<u>7</u>
	<u>\$ 408</u>	<u>\$ 370</u>

The Department’s 2004-2005 Annual Report<sup>2</sup> contains information about the Department’s revenues and expenditures. The Public Accounts

<sup>1</sup> Saskatchewan. Department of Finance. (2004). *2004-05: Saskatchewan provincial budget: Performance Plan: Saskatchewan Agriculture, Food and Rural Revitalization*. Regina: Author. page 2. [http://www.agr.gov.sk.ca/docs/about\\_us/departement\\_info/agriculture0405plan.pdf](http://www.agr.gov.sk.ca/docs/about_us/departement_info/agriculture0405plan.pdf)

<sup>2</sup> [http://www.agr.gov.sk.ca/DOCS/about\\_us/departement\\_info/SAFRRAnnualReport\\_0405.pdf](http://www.agr.gov.sk.ca/DOCS/about_us/departement_info/SAFRRAnnualReport_0405.pdf)

compendium<sup>3</sup> reports the revenues and expenses of the Department's special purpose funds and agencies listed below, except for agencies under the Agri-Food Council, which are reported in the Council's annual report and on its web site<sup>4</sup>.

## **Special purpose funds and Crown agencies**

The Department is responsible for the following:

	<u>Year-end</u>
Agricultural Credit Corporation of Saskatchewan	March 31
Agri-Food Council	March 31
Agricultural Implements Board	March 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Crop Reinsurance Fund of Saskatchewan	March 31
Horned Cattle Fund	March 31
Individual Cattle Feeder Loan Guarantee	
Provincial Assurance 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

### **Agencies under the Agri-Food Council**

Chicken Farmers of Saskatchewan	December 31
Saskatchewan Alfalfa Seed Producers' Development	
Commission	July 31
Saskatchewan Broiler Hatching Egg Producers'	
Marketing Board	December 31
Saskatchewan Canola Development Commission	July 31
Saskatchewan Egg Producers	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Forage Seed Development Commission <sup>5</sup>	June 30

<sup>3</sup> <http://www.gov.sk.ca/finance/paccts/paccts05/05paper1.htm>

<sup>4</sup> <http://www.agr.gov.sk.ca/agrifood>

<sup>5</sup> Created in July 2005, therefore will be audited for year ended June 30, 2006

Saskatchewan Mustard 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

## **Key Risks**

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 key risks the Department must manage well to be successful. The Department must provide support so that:

- ◆ Saskatchewan is able to compete successfully in world agricultural markets
- ◆ Saskatchewan's agricultural production and processing industries are sustainable and commercially viable
- ◆ Saskatchewan's agricultural production and processing industries provide reasonable investment opportunities
- ◆ Saskatchewan's agricultural production and processing industries are adequately diversified from primary agricultural products to higher value products

We identified the key risks through discussions with management and reviewing the Department's web site and annual report. Management confirmed that these are the key risks facing the Department. We have not audited the systems and practices the Department uses to manage its key risks.

## Our audit conclusions and findings

This chapter contains our audit conclusions and findings for the Department for the year ended March 31, 2005 and for its special purpose funds and agencies with March 31, 2005 or July 31, 2005 year-ends where we participated in the audit except for Saskatchewan Agricultural Stabilization Fund (SASF), Saskatchewan Canola Development Commission, and the Saskatchewan Mustard Development Commission. Our audits of these agencies are not complete. In addition, KPMG has not completed its audit of SASF. We will report the results of these audits in a future report.

We did not participate in the audits of agencies under the Agri-Food Council except for Sask Pork, Saskatchewan Canola Development Commission, and Saskatchewan Mustard Development Commission. 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
- ◆ Meyers Norris Penny LLP
  - Agricultural Credit Corporation of Saskatchewan
  - Sask Pork

To complete our work we used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (see <http://www.auditor.sk.ca/rrd.html>). Our Office and the appointed auditors formed the following opinions.

**In our opinion, for the Department for the year ended March 31, 2005 and its special purpose funds and agencies with March 31, 2005 or July 31, 2005 year-ends where we participated in the audit:**

- ♦ the Department and its agencies had adequate rules and procedures to safeguard public resources, except where we report otherwise in this chapter
- ♦ the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing
- ♦ the financial statements of the Department's special purpose funds and agencies are reliable

## **Agri-Food Innovation Fund**

The purpose of the Agri-Food Innovation Fund (Fund) is to enhance the diversification of the Saskatchewan agriculture and food industry, support research and development, and encourage farmers and rural residents to create economic opportunities and jobs.

The Fund's financial statements for the year ended March 31, 2005 report an accumulated surplus of \$3.5 million and a deficit for the year of \$1.2 million.

### ***Accurate financial information was not prepared or maintained***

The Department did not prepare accurate financial statements and did not maintain accurate financial records for the Fund.

The Fund made agreements with various contractors to carry out projects to achieve the Fund's objectives. The Department uses a spreadsheet to track important information regarding the Fund's projects (for example, the amount of expenses incurred by each project to date, amounts paid to contractors, and future commitments). The Department uses the information from this spreadsheet to prepare the financial statements.

The staff member responsible for maintaining the accuracy of the spreadsheet left the Department. Other Department staff ensured that authorized payments were made to project contractors, however, the project spreadsheet was not accurately maintained. When the spreadsheet information was used to prepare the financial statements, it

resulted in inaccurate financial statements. For example, the deficit for the year was \$69,000 higher than it should have been.

The Department should provide adequate guidance and supervision to staff to ensure that the project spreadsheet information is properly maintained and accurate financial statements prepared. To properly maintain the spreadsheet, the Department must ensure the details regarding projects are accurate. To prepare accurate financial statements, staff must understand how information on the spreadsheet is to be presented on the financial statements using Canadian generally accepted accounting principles (GAAP).

- 1. We recommend that the Department of Agriculture and Food provide adequate guidance and supervision to staff recording information and preparing financial statements.**

## **Pastures Revolving Fund**

The Pastures Revolving Fund (Fund) provides for the establishment, operation, management and maintenance of pastures, and programs and services related to pasture and livestock management. It also provides programs related to developing, protecting, and promoting the environmental, social, and economic use of pastures.

For the year ended March 31, 2005, the Fund had an annual surplus of \$1.0 million and assets of \$3.4 million.

### ***Manual needs improvement***

The Department needs to update the Fund's Policies and Procedures Manual for financial reporting.

Written guidance forms part of an agency's system of internal control. Usually, such guidance is provided in an accounting policies and procedures manual. This manual can be a guide to staff as they carry out their duties. Recorded policies and procedures help in the orderly and efficient conduct of business and help ensure financial reports are accurate.



An accounting policies and procedures manual should include:

- ◆ a description of the information needs of senior management and central agencies
- ◆ a description of the tasks and responsibilities for all staff positions
- ◆ a description of the significant accounting policies together with procedures necessary to ensure financial reports are properly prepared in accordance with GAAP
- ◆ detailed administrative control procedures for all accounting systems

Employees are able to refer to the Financial Administration Manual (FAM) which contains some components of the information required in a policies and procedures manual. For example, FAM provides guidance on accounting policies appropriate for revolving funds in section 3215. However, FAM does not provide direct, detailed guidance on procedures necessary to ensure that financial reports are prepared in accordance with GAAP. Neither FAM nor the Fund's existing manual includes detailed year-end procedures for preparing accurate reports on accounts receivable, accounts payable, unearned revenue, revenues, and expenses.

The financial statements presented for audit contained the following errors. Proper guidance on financial reporting would have helped staff to prepare financial statements without these errors.

- ◆ Accounts receivable were understated by \$42,500
- ◆ Capital assets were overstated by \$25,000
- ◆ Bad debt recovery was overstated by \$37,000
- ◆ Petroleum and gas lease revenue was overstated by \$24,500

We reported this matter in our 2004 Report – Volume 3. The Standing Committee on Public Accounts considered this matter on June 20, 2005 and concurred with our recommendation.

We continue to recommend that the Department include guidance for financial reporting in the Pastures Revolving Fund's Policies and Procedures Manual.

