Finance

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Main points

Treasury Board continues to use inappropriate policies to account for pension costs and to record transfers between the General Revenue Fund (GRF), the Fiscal Stabilization Fund, and Saskatchewan Infrastructure Fund. The use of these inappropriate policies continues to result in significant errors in the financial statements of the GRF.

The Department of Finance (Finance) provides critical government services directly or through its various special purpose funds and agencies. It relies on computer systems operated by the Information Technology Office (ITO) to deliver some of these services. As reported last year, Finance has not confirmed that ITO has sufficient processes to address the Department's specific requirements, and its agreement with ITO did not sufficiently address the recovery of essential computerized systems and data services in the event of a disaster.

At the start of 2006-07, Finance along with the Public Service Commission implemented a new computer system to process payroll. During the year, Finance did not reconcile the related salary bank account promptly. Reconciling bank accounts regularly makes sure all charges to bank accounts are proper and money is received and deposited to the correct account.

Finance collects provincial sales taxes of about $800 million annually. Finance has adequate processes to select businesses for audit except for the following. It needs to document the desired outcomes of the audit selection process in measurable terms; it needs to use an overall risk analysis to direct its audit efforts to areas of potential non-compliance with provincial sales tax laws; and it needs to report to senior management on the effectiveness of the audit selection process.

Public plans and annual reports are key documents for helping the Legislative Assembly and the public assess the performance of government agencies. In 2003, Finance established guidelines for preparing public plans and annual reports. The guidelines are adequate except they no longer contain timelines for the implementation of certain key reporting principles; i.e., setting performance targets, explaining key risks and capacity, and the integration of financial and non-financial information. We recommend that Finance prepare an implementation schedule that contains all key reporting principles.

Government accountability is improving. Finance, in conjunction with Executive Council, is responsible to guide Treasury Board agencies on managing and reporting publicly on their performance and to improve accountability. As of October 2007, the majority of departments and larger Treasury Board agencies use accountability frameworks that focus on results. However, a few agencies that handle significant public money do not yet make public their plans and report their progress toward achieving their objectives. Also, neither Finance nor Executive Council have identified a date by which Treasury Board agencies should make public their targets for major results.

Introduction

This chapter provides an overview of the responsibilities of the Department of Finance (Finance). Also, it sets out:

- the results of our audit of the financial statements of the Government of Saskatchewan
- the results of our audits of Finance and seven of its agencies for the year ended March 31, 2007
- actions the Government has taken to address our 2004 recommendations on the use of the Government's Accountability Framework[1]

This chapter also provides an update on the status of recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented.

Background

Treasury Board is responsible for setting accounting policies and approving the Summary Financial Statements and the General Revenue Fund (GRF) financial statements prior to their publication in the Public Accounts – Volume 1. Finance is responsible for the preparation of these statements in accordance with accounting policies set by Treasury Board. In addition, Finance is responsible for setting and using effective controls to permit the preparation of these financial statements.

To understand and assess the Government's overall financial performance, we encourage legislators and the public to use the Government's Summary Financial Statements published in *Public Accounts, 2006-2007 Volume 1*.

Finance helps the Government manage and account for public money. Its mandate is to provide options and advice to Treasury Board and Cabinet on managing and controlling the Government's finances. Its responsibilities include the following:

- administering and collecting provincial taxes

[1] For a description of the Accountability Framework, see http://www.finance.gov.sk.ca/performance-planning. (Accessed October 4, 2007).

- arranging government financing, banking, investing, and borrowing
- administering certain public sector pension and benefit plans
- controlling spending from the GRF
- maintaining department-wide revenue and expense systems including the financial modules of the computerized Multi-informational Database Applications system (MIDAS Financials)
- providing information, advice, and analysis on:
  - government-wide fiscal and economic policies including tax policy alternatives and budgetary decisions relating to the GRF
  - strategic policy development and analysis on matters related to public sector compensation and management of collective bargaining
  - financial management and accounting
  - performance planning and reporting (including the Government's Accountability Framework)

Special purpose funds and Crown agencies

Finance administers and is responsible for the following special purpose funds and agencies (agencies). Each of the agencies (except for the Fiscal Stabilization Fund and Saskatchewan Infrastructure Fund) provide the Legislative Assembly with audited financial statements; some also provide an annual report.[2]

Year ended March 31
Fiscal Stabilization Fund
General Revenue Fund
Judges of the Provincial Court Superannuation Plan
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Infrastructure Fund
Saskatchewan Pension Annuity Fund
Saskatchewan Watershed Authority Retirement Allowance Plan

[2] Public Accounts – Volume 1 includes an audited schedule of transfers and accumulated balances for the Fiscal Stabilization Fund and Saskatchewan Infrastructure Fund. These Funds are not required to prepare financial statements.

Year ended December 31
Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Extended Health Care Plan for Certain Other Retired Employees
Extended Health Care Plan for Retired Employees
Municipal Employees' Pension Commission
Municipal Financing Corporation of Saskatchewan
Public Employees Deferred Salary Leave Fund
Public Employees Dental Fund
Public Employees Disability Income Fund
Public Employees Group Life Insurance Fund
Saskatchewan Pension Plan
Saskatchewan Power Corporation Designated Employee Benefit Plan
Saskatchewan Power Corporation Pre-1996 Severance Plan
Saskatchewan Water Corporation Retirement Allowance Plan
SaskEnergy Retiring Allowance Plan
SaskPen Properties Ltd.[3]
SaskPower Supplementary Superannuation Plan
SGI Service Recognition Plan

Chapter 4 of our 2007 Report – Volume 1 contains the results of our audits of the agencies with years ended December 31, 2006.

Overview of the Department's finances

For the year ended March 31, 2007, Finance had revenues of $6.5 billion and spent almost $1.0 billion.

The following is a list of major revenues:

	Original Estimates	Actual
	(in millions of dollars)	
Taxes	$ 4,002.9	$ 4,476.5
Transfers from government entities	525.2	572.9
Other own-source revenue	187.0	240.7
Transfers from the Federal Government	1,131.2	1,184.7
Total	$ 5,846.3	$ 6,474.8

[3] Our Office has been denied access to this Crown agency since December 31, 1993 (see Chapter 8 of our 1999 Fall Report –Volume 2 for further discussion of the matter).

The following is a list of major programs and spending:

	Original Estimates	Actual
	(in millions of dollars)	
Public service pension and benefits	$ 219.1	$ 395.5[4]
Central management and services	6.7	8.3
Treasury and debt management	2.7	2.5
Provincial comptroller	8.7	7.4
Budget analysis	4.6	4.6
Revenue	16.6	17.0
Personnel policy secretariat	0.4	0.3
Miscellaneous	0.1	0.2
Capital asset amortization	1.0	1.1
Finance – servicing government debt	551.0	538.3
Total	$ 810.9	$ 975.2

Finance's annual report sets out differences between actual and budgeted revenues and expenses and explains significant differences in expenses.

Our audit conclusions and findings

Our Office worked with Meyers Norris Penny LLP, the appointed auditor for the Public Employees Pension Plan. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors.*[5]

In our opinion for the year ended March 31, 2007:

- **the Government's Summary Financial Statements included in the *Public Accounts, 2006-2007 Volume 1* are reliable**

- **the GRF's financial statements included in the *Public Accounts, 2006-2007 Volume 1* are reliable except for not recording amounts owed for pensions and improper recording of transfers between the GRF and the Fiscal Stabilization Fund and the Saskatchewan Infrastructure Fund**

[4] Actual public service pension and benefits is restated to include $178 million of unrecorded pension costs (see details later in this chapter).
[5] To view a copy of this report, see our website at www.auditor.sk.ca/rrd.html.

- **the financial statements of the other above-listed agencies with a March year-end are reliable**

- **Finance and its agencies with a March year-end had adequate rules and procedures to safeguard public resources except for matters reported in this chapter**

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

- **Finance had adequate central controls to secure transactions on MIDAS Financials for the period January 1, 2006 to December 31, 2006**

In addition, the law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2007, the Government approved the spending of $191 million by special warrant. It later included these special warrants in an appropriation act.

Business continuity plan required

In our 2006 Report – Volume 3, we reported that Finance needs a written, tested, and approved business continuity plan to help ensure that it can continue to provide services in the event of a disaster. [6]

Finance provides critical government services. These include controlling spending from the GRF (central payments system), managing the Government's debt, and collecting all revenues 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 a timely manner.

[6] **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.

In 2006-2007, Finance prepared a draft plan. Finance assembled a business continuity team and analyzed its business functions. The analysis includes a threat and risk assessment and identifies its critical services and a vital records inventory. As well, Finance has documented and tested a disaster recovery plan for its central payment system.

Finance needs to complete the plan by documenting the steps for recovery and restoration of critical services, such as the collection of provincial sales tax, and testing the plan.

PAC considered this matter on October 5, 2006 and concurred with our recommendation.

We continue to recommend that the Department of Finance complete its business continuity plan.

Control over disaster recovery of IT systems

Finance's service level agreement with the Information Technology Office (ITO) does not adequately address the area of disaster recovery.

Since September 2005, Finance has used ITO to provide it with IT services. Even though Finance uses ITO, Finance remains responsible to have adequate policies to support its IT requirements.

Finance's agreement with ITO sets out the scope, level, and quality of services ITO provides. However, the agreement does not include adequate provisions for the on-going availability of key information technology services. The agreement does not adequately address disaster recovery processes, expectations, and reporting requirements.

The disaster recovery plan that ITO is developing for its data centre does not identify the priority or procedures required to restore applications at Finance. In the case of a disaster, Finance does not know if or when ITO would restore Finance's systems.

PAC considered this matter on March 13, 2007 and concurred with our recommendation.

We continue to recommend that the Department of Finance confirm, in writing, the processes and policies that the Information Technology Office uses to address its specific disaster recovery requirements and then identify and set up additional policies unique to the Department of Finance as necessary.

Better human resource plan needed

In 2005-2006, we reported that Finance's human resources plan document did not have all the key components that comprise a comprehensive human resource plan. A comprehensive human resource plan would help Finance ensure that it continues to have the right employees, in the right jobs, and at the right time.

A comprehensive human resource plan should:

- set out human resource priorities that are linked to Finance's strategic direction
- describe key human resource risks
- outline gaps in current human resources
- describe strategies to bridge gaps and address risks
- outline implementation plan of major strategies

We do not expect all of these components to be in a single document.

During 2006-2007, Finance revised its human resource plan to identify its key risks and include a projection of future human resource needs for new and ongoing activities. However, the plan does not yet set out the financial resources Finance would need and when. Also, it does not identify who is responsible to implement the planned strategies.

As of October 1, 2007, the Government transferred Finance's Human Resources Division to the Public Service Commission (PSC). Finance should work with PSC to ensure it is clear who is responsible for completing Finance's human resource plan.

PAC considered this matter on March 13, 2007 and concurred with our recommendation.

We continue to recommend that the Department of Finance complete its human resource plan.

Annual pension costs not included in Estimates

Accounting for pension costs on an accrual basis is important so that reported expenses reflect the full cost of the Government's pension promises.

Since 1998, we have recommended that Finance include the GRF's total pension costs for the year in the Estimates. The Estimates only include pension costs on a cash basis, that is, 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 are significant. In the 2006-2007 Estimates:

- planned operating expenses of $7.1 billion are understated by $451.4 million
- planned surplus of $102,000 is overstated by $451.4 million
- planned accumulated deficit of $4.3 billion is understated by $4.4 billion

Finance did not provide legislators with the effects on the 2007-2008 Estimates of accounting for pension costs on an accrual basis. It has disclosed that it expects its expenses to increase by an additional $380 million[7] to account for pension costs related to the GRF.

In February 2002, PAC considered this matter and disagreed with our recommendation.

Better control over bank accounts needed

Finance needs to follow its rules and procedures to control its bank accounts.

Finance's procedures require employees to reconcile the recorded bank balances to the bank's records each month. They also require management to review and approve the reconciliations. Regular reconciliation of recorded bank balances to the bank's records provides an important check that all charges to the bank account are proper and all money is received and deposited into the right account. It also provides a

[7] 2007-2008 Saskatchewan Provincial Budget – Budget and Performance Plan Summary. page 56.

check on the accuracy and reliability of Finance's accounting records. Furthermore, timely bank reconciliations help detect errors or misuse of money quickly.

In 2006-2007, Finance did not reconcile its sinking fund bank accounts promptly. It did not complete these bank reconciliations from July 2006 to March 2007 due to an oversight following a staffing change. It completed these bank reconciliations by May 2007.

In 2006-2007, Finance did not reconcile the Government's salary bank account promptly. It was unable to complete the reconciliation for April 2006 until February 2007. The bank reconciliations for May 2006 to March 2007 were completed by May 2007. This was due in part to the Government's implementation of the new MIDAS Human Resources payroll computer system on April 1, 2006.

1. We recommend that the Department of Finance follow its established rules and procedures and reconcile recorded bank balances to the bank's records promptly.

Better control over employees' pay needed

Finance needs to better control employees' pay.

During the year, Finance reviewed its payroll costs during its review of monthly financial reports. However, Finance did not adequately review the accuracy of key payroll data for each pay period prior to paying employees. As a result, employees' pay has not been approved in accordance with *The Financial Administration Act, 1993.*

This weakness increases the risk that employees may be paid incorrect amounts.

2. We recommend that the Department of Finance adequately review the payroll for accuracy prior to paying its employees to ensure that all employees' pay is approved in accordance with *The Financial Administration Act, 1993*.

Continued use of inappropriate accounting policies – General Revenue Fund

Treasury Board does not use Canadian generally accepted accounting principles for the public sector (GAAP) to account for pension costs or to record transfers to and from the Fiscal Stabilization Fund and the Saskatchewan Infrastructure Fund when preparing the GRF financial statements.

The impact of using inappropriate accounting policies results in significant errors in the GRF financial statements. These errors affect the reported net debt and annual surplus. If these transactions had been accounted for properly, the statements would have recorded net debt of $10.11 billion instead of $6.45 billion at March 31, 2007 and recorded a deficit of $15 million instead of a surplus of $293 million for the year then ended.

Because the errors significantly impair the usefulness of these financial statements, we have qualified our auditor’s report on the GRF’s financial statements published in *Public Accounts, 2006-2007 Volume 1*.

Qualified audit reports are not normal and should cause legislators and the public concern. Our audit report advises readers of the errors in the financial statements. This chapter explains them in more detail.

It is important that governments use GAAP to prepare their financial statements. Use of GAAP helps ensure the financial results are presented fairly and free from bias. It is not appropriate for governments to set accounting policies based on their own preferences.

Financial statements should reflect the costs of decisions made during the year. As noted below, use of the current policies result in the GRF statements not reflecting the cost of a key pension decision. Also, as the Government uses the GRF's annual surplus as one of its key performance indicators, users should consider the impact of the errors in the GRF's financial statements.

We continue to recommend that the General Revenue Fund's financial statements record pension costs and transfers in accordance with Canadian generally accepted accounting principles for the public sector.

PAC considered these matters in February 2002 and disagreed with our recommendation.

The following sets out in more detail the impact of the use of the above inappropriate accounting policies.

Pension debts unrecorded

The Government, through the GRF, sponsors several large pension funds (e.g., Public Service Superannuation Plan, Teachers' Superannuation Plan). As the Government acknowledges in note 1 to the 2007 GRF financial statements, Treasury Board has decided not to follow GAAP to account for its pension costs.

Rather, the Treasury Board accounts for its pension costs in the GRF on a cash basis (i.e., only records amounts paid to retired members or contributed to a pension fund during the year).

The use of this inappropriate accounting policy results in inaccurate GRF financial statements because the Government fails to record the amounts it owes for pensions (debt) and the total annual costs of these pensions as required by GAAP. Also, the cost of major pension decisions taken in the year are not recorded in the year that the decision is made. As a result, the Government does not provide legislators and the public with information on these decisions and is not held accountable for the cost of the decision it has taken.

For example, neither the GRF statements nor the GRF budget (i.e., the *Estimates*) includes the cost of the March 27, 2007 decision to increase pension benefits for members of the Public Service Superannuation Plan by 70% of the consumer price index.[8] For the year ended March 31, 2007, this decision increased pension costs and pension amounts owed by about $90 million. If Treasury Board continues to use inappropriate accounting policy, this will result in future governments being held accountable for this pension decision.

[8] On March 27, 2007, the Assembly passed Bill 32 *an Act to amend The Superannuation (Supplementary Provisions) Act, 2006* which provides pension increases equal to 70% of the change of the consumer price index for superannuates from various pension plans. The plans include the Public Service Superannuation Plan, the Power Corporation Superannuation Plan, and the Liquor Board Superannuation Plan.

These statements do not record the total 2007 pension costs of $413 million (including the $90 million of costs related to the above pension decision) and pension amounts owed at March 31 2007 of $4.66 billion. As a result, the 2007 GRF financial statements overstate the annual surplus by $413 million and understate the accumulated deficit by $4.66 billion.

Further, the use of this accounting policy affects the accuracy of information reported in the annual reports of the two departments that sponsor certain pension plans. The 2006-2007 annual report of Learning understates its actual expenses by $235 million and that of Finance understates actual expenses by $178 million. Neither annual report discloses the related pension debt of $2.84 billion for teachers' pensions and benefits (i.e., Learning) or of $1.82 billion for government employees' pensions and benefits (i.e., Finance).

Inappropriate recording of transfers

The Government records transfers between the GRF and the Saskatchewan Infrastructure Fund and the Fiscal Stabilization Fund inappropriately.

In 2007, the Government created the Saskatchewan Infrastructure Fund (Infrastructure Fund).[9] The Infrastructure Fund functions similar to the Fiscal Stabilization Fund.[10] As the Government acknowledges in note 1 to the GRF's financial statements, Treasury Board has decided not to follow GAAP to account for its transfers between the GRF and these Funds.

Treasury Board records transactions between the GRF and the Funds as revenue or expense of the GRF. Use of this policy enables the Government to change the GRF's annual surplus to another amount by recording transfers between the GRF and the Funds. The Government decides both the amount and timing of the transfers between the GRF and the Funds. Transfers between the GRF and these Funds have no impact on the overall finances of the Government.

[9] The *Infrastructure Fund Act* established the Saskatchewan Infrastructure Fund effective December 6, 2006.
[10] *The Fiscal Stabilization Fund Act* established the Fiscal Stabilization Fund effective April 1, 2000.

The substance of the transactions between the GRF and these Funds is that the amounts that the GRF has paid or owes to the Funds must be repaid to the GRF. GAAP does not allow governments to record changes in the amounts owed from/due to or collected from/paid to the Funds as revenue or expense of the GRF.

The 2007 GRF financial statements inappropriately include a transfer to the Infrastructure Fund as an expense of $105 million. As a result, the 2007 GRF financial statements overstate the accumulated deficit by $993 million and understate the annual surplus by $105 million.

Overall impact of use of inappropriate accounting policies

Exhibit 1 sets out what the amounts reported in the 2007 GRF financial statements would be if the Government had used the correct accounting policies.

Exhibit 1 – Impact on GRF financial statements

Financial statement item	**Amount reported in 2007 GRF financial statements**	**Amount using appropriate accounting policy**	**Difference** *Amount reported is: overstated (too high) understated (too low)*
Statement of Financial Position			
Total Financial Assets (due from the Fiscal Stabilization Fund and the Saskatchewan Infrastructure Fund)	$6.11 billion	$7.10 billion	$993 million (understated)
Total Liabilities (pension debt)	$12.55 billion	$17.21 billion	$4.66 billion *(understated)*
Net Debt	$6.45 billion	$10.11 billion	$3.67 billion *(understated)*
Accumulated Deficit, at March 31 2007	$4.00 billion	$7.67 billion	$3.67 billion *(understated)*
Statement of Operations			
Total Operating Expense	$7.71 billion	$8.12 billion	$413 million *(understated)*
Transfer to the Saskatchewan Infrastructure Fund expense	$105 million	$ --	$105 million *(overstated)*
Surplus (deficit)	$293 million	$(15 million)	$308 million *(overstated)*

Public Service Superannuation Board

Overview of Board

The Public Service Superannuation Board (Board) is responsible for the administration of *The Public Service Superannuation Act* and other relevant legislation. The primary objective of the Board is to provide superannuation allowances to employees who retire and to the dependants of deceased superannuates and employees, in accordance with governing legislation.

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.[11]

In 2006-2007, the Plan received contributions of $4.3 million from employees and $100.6 million from the General Revenue Fund. At March 31, 2007, the Plan held assets of $15.2 million and had liabilities of $1,886.7 million.

Complete business continuity plan needed

The Board needs a written, tested, and approved business continuity plan to help ensure that it can continue to operate effectively in the event of a disaster.

The critical services the Board provides include receiving and recording contributions, handling transfers, and providing termination benefits, death benefits, and retirement benefits to members. The Board must provide these services even if a disaster disrupts its ability to operate in a normal manner. Exhibit 2 describes the elements of a complete business continuity plan. Without a complete business continuity plan, the Board is at risk of not being able to provide critical services in a timely manner.

[11] Defined benefit final average pension plan is a pension plan that specifies the pension that members of the plan receive on retirement based on a formula that uses an average of the members pay for the last three to five years of employment and years of employment.

Exhibit 2 – Components of a business continuity plan

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 including identifying and ranking the Board's critical services.
- Include plan activation, notification and emergency procedures that would be used in the event of a disaster together with steps for the recovery and restoration of critical services.
- Be documented, approved by management, and easily accessible when needed.
- Be tested initially and on a regular basis.
- Set out policies for on-going maintenance and updating of the plan.

The Board has documented some elements of a business continuity plan. For example, the Board has documented some of the information technology equipment it uses and has arranged for use of an offsite facility in the event of a disaster. However, the Board needs to identify and rank its critical services, determine the recovery time, and document processes to recover or restore each service. The Board also needs to periodically update and test its business continuity plan.

3. We recommend that the Public Service Superannuation Board have a complete business continuity plan.

Retired members' pensions

The Board does not collect sufficient 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 in a fiscal year without a reduction in their pensions. 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 fiscal year. The Act also requires the Board to stop the pension of a retired member who the

Government re-hires as a permanent employee when that 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 notifying the Board upon re-employment with the Government. As a result, the Board cannot ensure that all pensions it 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 2001 Spring Report and subsequent 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.

Public Employees Pension Plan

Overview of Plan

The Public Employees Pension Board (Board) is responsible for *The Public Employees Pension Plan Act*. The Board manages the Public Employees Pension Plan (PEPP), a defined contribution pension plan. The Board's primary objective is to provide retirement benefits to PEPP members in accordance with the law. The Public Employees Benefits Agency (PEBA) provides the day-to-day administration of PEPP.

PEPP's 2006-07 Annual Report include its audited financial statements. These financial statements report contributions of $84 million from employees and $79 million from employers, investment income of $176 million, and an increase in market value of the investments of $276 million. For the year, PEPP incurred administrative expenses of $15 million and made transfers or payments out of PEPP of $135 million. At March 31, 2007, PEPP held assets of $4.3 billion.

Complete business continuity plan needed

In our 2006 Report – Volume 3, we reported that PEPP needs to complete its business continuity plan.

PAC considered this matter in March 2007 and agreed with our recommendation.

PEPP 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. PEPP's critical services include receiving and recording contributions from employers and employees, handling transfers, and providing members with termination benefits, death benefits, and retirement benefits.

Exhibit 2 sets out the key elements of a business continuity plan.

PEPP continues to make progress in documenting the elements of its plan. However, it still needs to rank its critical services, document the steps for restoring its critical services, determine recovery time, and document processes to recover or restore each service. PEPP also needs to periodically update and test its business continuity plan.

We continue to recommend that the Public Employees Pension Plan complete its business continuity plan.

IT security policies and procedures needed

Since our 2005 Report – Volume 3, we reported that the Public Employees Pension Plan needs to approve and implement information technology (IT) policies and procedures for granting, removing, and monitoring user access to its systems and data.

IT policies and procedures ensure vital information is protected, accurate, complete, authorized, and available when needed. Monitoring user access ensures only authorized users access an agency's systems and data.

PEPP has established written policies and procedures for granting and removing access to vital information and programs. However, it has not established processes, including written policies and procedures, for monitoring who has access to what systems and if that access is still appropriate. Absence of these processes could result in unauthorized disclosure of information, reliance on incomplete and inaccurate information, and the loss of vital information.

We continue to recommend that the Public Employees Pension Plan document, approve, and implement information technology policies for monitoring user access.

Judges of the Provincial Court Superannuation Plan

Overview of Plan

The Judges of the Provincial Court Superannuation Plan (Plan) was established under *The Provincial Court Act* and continues under *The Provincial Court Act, 1998*. Finance is responsible for the administration of *The Provincial Court Act, 1998*.

The primary objective of the Plan is to provide superannuation allowances to judges who retire (superannuates) and to the dependants of deceased superannuates and judges in accordance with governing legislation. The Plan is a defined benefit final average pension plan.

In 2006-2007, the Plan had employee contributions of $0.4 million and $2.3 million in additional contributions from the General Revenue Fund. At March 31, 2007, the Plan held net assets of $19.0 million and had liabilities of $90.8 million resulting in an unfunded liability of $71.8 million.

Governance processes

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.

The Plan is significant to Finance, members of the Plan, and the public. Finance, through the GRF, incurs significant costs to provide pensions. The Plan's unfunded liability is the GRF's responsibility. At year-end, the Plan had an unfunded liability of $72 million. Without a strategic plan, Finance may not properly manage the Plan's risks.

In our 2006 Report – Volume 3, we reported that Finance had not developed a strategic plan for the Judges of the Provincial Court Superannuation Plan including goals and objectives, a summary of risks faced by the Plan and its members, and the key strategies to manage those risks.

At June 2007, Finance has not developed a strategic plan setting out the goals and objectives, a summary of risks faced by the Plan and its members, and the key strategies to manage those risks. Management told us it will start developing a plan in the latter part of 2007-08.

We continue to recommend that the Department of Finance develop a strategic plan for the Judges of the Provincial Court Superannuation Plan.

PST audit selection processes

The Government's primary objective for the tax system is to raise the necessary revenues to finance key public services such as health care, education, and highways.[12] The Government's estimated tax revenue for 2007-08 is $4.1 billion. Provincial sales tax (PST) is a significant part of the tax system. This 5% consumer tax applies to the purchase of certain goods and services. Estimated provincial sales tax revenue for 2007-08 exceeds $800 million.

Background

Finance is responsible for administering the provincial sales tax. By law, all businesses in Saskatchewan must register with Finance. Businesses selling taxable goods and services must obtain a vendor's license. Businesses not selling taxable goods or services must register for the purpose of paying tax on items purchased outside the province. Businesses must also file regular tax returns with Finance. Tax returns

[12] *Department of Finance 2006-2007 Annual Report*, page 11.

may be filed monthly, quarterly, or annually depending on the amount of tax collected.[13]

Effective management of the provincial sales tax system is crucial to achieving two of Finance's goals as noted in its 2006-2007 annual report; Goal 1 – Saskatchewan is fiscally strong and stable, and Goal 2 – Saskatchewan is a prosperous and socially responsible province.

Audits of businesses are an important tool that help Finance to manage the provincial sales tax system. To be effective, these audits must focus on areas with a higher risk of non-compliance and encourage voluntary compliance with provincial sales tax laws.

Without effective processes, Finance may not receive all taxes due and the Government may not have adequate resources to pay for services and maintain the financial stability of the province.

Audit objective and conclusion

The objective of this audit was to assess the adequacy of Finance’s processes as at August 31, 2007 to select businesses for audit to promote compliance with provincial sales tax laws.

To do this work, we followed *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants. We assessed Finance’s processes against the criteria summarized in Exhibit 3. We developed the criteria based on our review of relevant literature and criteria used by other legislative audit offices. Finance agreed with the criteria. We describe the criteria in more detail under key findings.

Exhibit 3 – Audit criteria for selecting businesses for audit

To have adequate processes for selecting audits, Finance should:

1. Document the mandate and purpose for doing PST audits
2. Analyze the risks of non-compliance with tax laws
3. Direct audits to areas of potential non-compliance
4. Report on the effectiveness of the audit selection process

[13] Department of Finance website: http://www.finance.gov.sk.ca/taxes/pst. (October 26, 2007).

The Department of Finance had adequate processes at August 31, 2007 to select businesses for audit except it needs to:

- **document the desired outcomes of the audit selection process in measurable terms**
- **use an overall risk analysis to direct its audit efforts to areas of potential non-compliance with provincial sales tax laws**
- **report to senior management on the effectiveness of the audit selection process**

Key findings

In this section, we describe our expectations (in italics) and set out our key findings by criterion.

Document the mandate and purpose for doing provincial sales tax audits

To document the mandate and purpose for doing PST audits, we expected Finance to:

- *state the objectives of doing PST audits*
- *specify the desired outcomes to be achieved*
- *identify resources available and constraints assumed*

Audit processes would include the development and implementation of a comprehensive set of performance measures (both output and outcome-focused) and close monitoring of the results. Measuring effectiveness of audit processes is best done by using a number of indicators, of both outputs and outcomes, as no single reliable measure can capture every aspect of audit effectiveness. Outputs would include the number of audits (with consideration of sectors or areas subject to audit), the amount of tax assessed per audit, and the amount of time spent per audit. Outcomes would include the overall rate of non-compliance known as the "tax gap" and businesses' attitude towards audit and non-compliance.

Finance uses its key planning documents and website to set out its public objectives for doing PST audits. For example, its 2007-08 performance plan states that conducting audits of businesses helps the Department to achieve its objectives "to promote voluntary compliance with tax laws and to ensure that all businesses are paying and remitting the required taxes." Its performance plan notes the number of audits conducted needs to be high enough to meet these objectives.

Finance's website elaborates by adding that the Department:

- promotes compliance with tax programs through quality service, taxpayer education and responsible, effective enforcement
- ensures taxpayers and businesses are treated consistently and fairly

Finance has divided the province into five audit regions. Each year, it prepares an annual audit plan that outlines expected work for all regions. The annual budget for the audit branch is about $5 million. The audit plan focuses primarily on the estimated number of audits that Finance expects to complete based on resources available. In recent years, Finance has experienced high staff turnover in its audit branch. We found that it considers this constraint when preparing the annual audit plan.

Finance has not set the desired outcomes for its objectives. As a result, it is unable to link its resource needs to the actions necessary to achieve its objectives.

We noted that staff in the revenue division have begun to develop additional performance measures that are aligned with the Department's performance plan. Use of clearly defined measures will help Finance focus its action plans, strategies, and audit resources effectively.

4. We recommend that the Department of Finance set the desired outcomes of the provincial sales tax audit selection process in measurable terms.

Analyze the risks of non-compliance with tax laws

To analyze the risks of non-compliance with tax laws, we expected Finance to:

- *identify the risks of non-compliance with tax laws*
- *rank identified risks according to their significance*

- *use results of past audits and experience elsewhere in the risk analysis*
- *set expected rates of non-compliance acceptable to management*

An effective system involves identifying and quantifying key risks, developing a clear strategy to address those risks, and periodically evaluating progress made.

Finance has not done an overall risk analysis to identify, rank, or document the areas of potential non-compliance with PST laws. Such an analysis is necessary to enable Finance to focus its resources on areas where non-compliance is of greatest significance and impact. Risk assessment would include assessing the desired audit coverage necessary to deter non-compliance. Effective risk analysis also helps to identify potential issues and encourage a consistent approach in each of its audit regions.

Finance uses several informal processes to monitor potential problem areas, usually those where it previously noted cases of non-compliance. For example, it uses information gathered from its other audits, reviews business registrations and news articles, and monitors new construction in the province. Finance uses a central information system to document and track evidence obtained about possible non-compliance with PST laws by specific businesses for later follow-up.

In addition, Finance works with other provinces and the Federal Government to identify areas of non-compliance with tax laws. For example, it participates on an underground economy-working group. Finance exchanges information with these other governments on matters of interest related to compliance with tax laws.

Finance's audit manual provides employees with some general guidance for selecting audits in areas where experience has suggested that there is a greater risk of non-compliance. However, Finance has not ranked the significance of these general consideration areas. Usually, managers need to do further analysis of these areas to determine the businesses to select for audit.

Finance has not set expected rates of non-compliance that it considers acceptable, i.e., when it is not economical or practicable to perform further audit activity. Consequently, Finance does not know if it is spending the appropriate amount of audit effort to achieve each of its objectives.

5. We recommend that the Department of Finance analyze the risks that businesses are not complying with provincial sales tax laws and rank identified risks according to their potential significance.

6. We recommend that the Department of Finance document its audit strategy to address identified risks that businesses are not complying with provincial sales tax laws.

Direct audits to areas of potential non-compliance

To direct audits to areas of potential non-compliance, we expected Finance to have processes to:

- *select businesses for audit based on the risk analysis*
- *design an appropriate audit program*
- *supervise and review audits for assurance that audits addressed the risk areas identified in the audit selection process*

As stated earlier, setting clear expectations and doing an overall risk analysis is necessary to focus the audit selection process on areas of greatest potential for non-compliance with PST laws. Because Finance does not do this, it does not know if it is directing its audit efforts to areas in proportion to the corresponding likelihood for potential non-compliance.

Although Finance does not formally direct audit staff to examine risk areas that it has determined to be most significant, it maintains an audit manual that contains general guidance on processes and procedures for selecting and performing audits. These processes assign responsibility for the selection of businesses for audit to regional managers. They use a variety of information sources to identify possible businesses to audit. Managers make selections based on factors such as size of the business, past filings, audit history, tips, and the nature of the business's transactions. Available resources, the manager's experience, and the desire to create an atmosphere of fairness also influence file selection.

The audit manual also contains specific guidance on audit procedures aimed at particular business types. These procedures focus on areas where there is a probability of finding errors.

When Finance selects a business for audit, an auditor carries out standard audit procedures as set out in the audit manual. For scheduled out-of-town audit trips, auditors also select other businesses in the same town. This often results in auditors spending time on matters where no potential risk had been identified, and finding little or no unremitted tax. Finance's processes should direct its audit efforts to businesses in proportion to the risk of detecting non-compliance with PST laws.

We found that appropriate staff review and supervise all audits. Adequate review and supervision helps ensure the audits adequately address the matters identified during the selection process.

7. We recommend that the Department of Finance direct its audit efforts based on an overall risk analysis of businesses not complying with provincial sales tax laws.

Report on the effectiveness of the audit selection process

To report on the effectiveness of the audit selection process, we expected the Department to have processes that:

- *evaluate actual performance of the process compared to expected performance at least annually*
- *report to senior management on the performance of the process compared to expected performance at least annually*
- *recommend process changes to senior management as needed*

Because Finance has not set out its desired outcomes, its reports focus on activities as set out in its annual audit plan. Finance monitors its audit program using periodic activity reports. For example, staff provide monthly activity reports to senior management comparing planned activities to actual results (e.g., audit hours used, taxes assessed, number of audits completed, and tax-roll coverage rate). These reports contain details by region. Staff also prepare narrative reports about the division's activities. However, these reports do not explain the differences between actual and planned activities.

Staff can suggest changes concerning the audit process to senior management as matters arise. For significant changes, staff submit formal proposals. The quality control area within the audit branch reviews changes affecting the audit manual before making any revisions. Where additional resources are required, the director of the audit branch reviews the suggestions and recommends an appropriate course of action to senior management.

Finance needs to continue its efforts to develop relevant measures that it can use to monitor, evaluate, and report on the effectiveness of the PST audit selection process. Senior management needs more information to assess whether it is applying audit efforts where they will be most effective. In addition to highlighting its activities, its reports should also explain any differences between planned and actual results.

8. We recommend that the Department of Finance require its senior management to receive reports on the effectiveness of the provincial sales tax audit selection process.

Selected references – PST audit selection processes

Annual Report of the Provincial Auditor of Ontario. (2002). Chapter 4.07 - Retail Sales Tax Program Audit (Follow-up to VFM Section 3.07, *Special Report on Accountability and Value for Money - 2000).* Toronto: Author.

Report of the Auditor General of Canada. (March 2004). Chapter 5 - Canada Revenue Agency: *Audits of Small and Medium Enterprises.* Ottawa: Author.

Report of the Auditor General of New Brunswick. (1999). Chapter 3 - Department of Finance *Consumption Tax.* Fredericton: Author.

Strengthening Tax Audit Capabilities: General Principles and Approaches (October 16, 2006). Organisation for Economic Co-operation and Development. Paris, France: Author.

U.S. General Accountability Office: Study on Tax Compliance. (2007). *Multiple Approaches are Needed to* Reduce *the Tax Gap.* Washington, D.C.: Author.

Public plans and annual reports assessment

Public plans and annual reports are key documents for the accountability of government agencies. These reports should help the Legislative Assembly and the public assess the performance of government agencies.

In 2003, Finance began providing formal public reporting guidelines to departments, three Crown corporations and key cross-sector strategies. Finance's 2003 *Public Performance Reporting Guidelines* contained a four-year implementation schedule.

Every year, Finance communicates updated guidelines and content requirements for performance plans and annual reports. Finance's guidelines are based on public reporting principles developed by the CCAF[14] and set out in a publication called *Reporting Principles–Taking Public Performance Reporting to a New Level*.

Our objective

The objective of this audit is to determine if Finance's 2007 *Public Performance Reporting Guidelines* for public plans and annual reports comply with CCAF's reporting principles.

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

Our expectations for the guidelines

Criteria represent our expectations or the main elements we looked for in our audit. According to the CCAF, an agency's performance reports must incorporate the following nine principles to adequately report on performance:

1. Focus on the few critical aspects of performance
2. Look forward as well as back

[14] CCAF-FCVI Inc. is a public-private partnership that "is a source of support, leading edge research and capacity for members of governing bodies, executive management, auditors, and assurance providers". For more information, see http://www.ccaf-fcvi.com.

3. Explain key risk considerations
4. Explain key capacity considerations
5. Explain other factors critical to performance
6. Integrate financial and non-financial information
7. Provide comparative information
8. Present credible information, fairly interpreted
9. Disclose the basis for reporting

Finance agrees with these principles. In 2007, Saskatchewan's public sector reports reflect most of these principles. Some of the principles, such as ensuring information is relevant, accurate and reliable, are challenging and meeting them may require significant time and resources. It is not common to find the principles used in an integrated manner or to their full extent.

Detailed assessment

This section explains how Finance's guidelines compare to CCAF's nine reporting principles. For each principle, we describe the principle in italics followed by our assessment of Finance's planning and reporting guidelines and content requirements.

Principle 1—Focus on the few critical aspects of performance

To be understandable, public performance reports need to focus selectively and meaningfully on a small number of critical areas of performance. Reports need to explain the value created by key programs or business lines. Reports should show the relationship between short-term results (outputs) and long-term goals (outcomes). Reports need to organize the information that is important to stakeholders in a concise yet robust presentation.

The guidelines Finance used in 2007 meet the main CCAF requirements for this principle. The guidelines require both plans and annual reports to organize information by goals and objectives. This allows readers to assess if planned results are achieved. Finance also requires explanations on the strategic importance of the objective as well as an overall assessment of progress expected or made during the year. Finance updated its planning guidelines to require agencies to document how their actions support key cross-government strategies.

Principle 2—Look forward as well as back

Clear expectations are important to a fair assessment of an agency's past performance. Therefore, reports need to identify the specific objectives through which goals are to be realized and track actual achievements against them. Reports should inform stakeholders how short-term achievements affect prospects for realizing long-term goals and show what has been learned and what will change as a result.

Finance requires each department's public plan to show its goals and related objectives. Finance expects that the annual report will describe actual results for key actions and performance measures that were published in the performance plan. The reporting guideline also requires agencies to explain why an action was not completed.

Finance's guidelines do not require agencies to publicly disclose targets. Performance targets help define what successful achievement of an objective is, help measure progress towards achieving the objective, and aid in prioritizing objectives when an agency has limited resources and capacity.

Principle 3—Explain key risks

Reports should identify key strategic risks, explain how risks influence policy choices and performance expectations, and relate results achieved to the type and amount of risk accepted. An agency should describe how it formally identifies risks, analyzes and manages risks, and measures its success in reducing risks.

Finance's planning guidelines ask for a reference to any risk management activities undertaken by the agency. Finance undertook a pilot project with several agencies in 2006-07 to complete formal risk reduction assessments. Finance has set up an internal reporting process to help agencies determine strategies to reduce major risks for planning purposes. Because not all agencies have undertaken formal risk management assessments, the planning guideline does not require detailed disclosure. Finance's reporting guideline is limited to identifying the key risks that impact the agency's results.

Principle 4—Explain key capacity

Reports should explain key capacity issues influencing the agency's ability to improve results and meet expectations. Reports should focus on the significant strategic capacity and conclusions should be well supported by qualitative and quantitative information.

Discussions of capacity should outline an agency's infrastructure, computer and technological resources, human resources, and internal processes in the context of the agency's strategic goals. Where the capacity to meet future performance expectations is not in place, the report should discuss the agency's plans to build or acquire the needed capacity and address the risks associated with any imbalance.

Finance guidelines do not require agency reports to explain capacity issues. Integration of information on needed and available human resources, buildings and equipment, and financial resources are important to understanding capacity. In Saskatchewan, aging infrastructure and human resource issues commonly influence capacity to achieve results.

Principle 5—Explain other factors critical to performance

Economic, environmental, or demographic factors often affect an agency's performance and the performance or actions of organizations it uses to deliver services. Reports should identify and explain factors that are important to the agency's success. Also, reports should provide sufficient information to indicate how the agency manages or responds to those factors.

Finance requires agencies to identify major factors that affect performance and report how the agency responded. Agencies are also required to describe major changes to their governance structure.

Agencies are required to disclose the role of service delivery partners in achieving their objectives. Agencies are not required to disclose if service delivery partners have met their expectations.

Principle 6—Integrate financial and non-financial information

Performance reports need to describe the relationship between resources and results. Associating the cost with results enables agencies to demonstrate how their activities add value. Reports should demonstrate how short-term results contribute to longer-term outcomes for each business line or strategy.

Finance's guidelines require agencies to show a comparison between actual spending and their budget and to explain major differences by subvote as well as information on financial reallocations, causes of changing costs, and information on stakeholder consultations. The guidelines also require references to financial information for related entities, e.g., revolving funds.

Finance's guidelines require comments on the costs of other agencies or stakeholders who contribute significantly to the reported performance where these agencies are the responsibility of the Minister, e.g., regional health authorities.

The financial information is not in the same format as the non-financial performance information, i.e., not shown by goal or objective. Finance does not expect agencies to explain how the financial resources impacted the non-financial results. This type of information would help readers to relate costs and other resources to results.

Finance requires agencies to provide financial and non-financial performance information for selected priorities that the Government presents in the provincial *Budget and Performance Plan Summary* and the *Mid-Year Report*. To be fully consistent with CCAF, Finance should require this level of integration for the agencies' performance plans and annual reports.

Principle 7—Provide comparative information

Public performance reports should provide comparative information to enhance readers' ability to understand and use the information. Benchmarking against similar processes in similar organizations is one method of providing comparative information about key aspects of performance.

In 2007-08, Finance expects agency reports to show trends over three years. This will allow readers to review and analyze trend information. Trends make it clear to readers whether performance is stable, improving, or deteriorating. Finance encourages that agencies compare their performance results to similar agencies in other provinces where possible.

Principle 8—Present credible information, fairly interpreted

Performance reports should present relevant, unbiased, verifiable information that is understandable and balanced. This includes the characteristics of consistency, fairness, and reliability. Performance information that appears in more than one report (i.e., business plan and annual report) should be consistent. In addition, to demonstrate that performance reports are credible, the reports must include adequate qualitative and quantitative information to support management's explanations, interpretations, and judgments.

Finance's guidelines focus on consistency and understandability. Finance expects agencies' annual reports to describe actual results for key actions and performance measures as they are shown in the related performance plans. Finance recognizes that agencies may have mostly output measures, i.e., measuring the amount of activity. The guidelines are encouraging those agencies to consider suitable outcome measures, i.e., measuring the amount of achievement.

Finance expects the reports to provide concise information about all critical areas of performance, regardless of the results achieved. Measured information is to be presented consistently from one year to the next or a reason given for the change. Finance requires the reports to state the sources of information and any limitations to the data that explains performance.

Principle 9—Disclose the basis for reporting

Performance reports should explain the basis for selecting the critical aspects of performance that the report focuses on. Management needs to describe the steps it has taken to validate the information, and its limitations. An independent audit and report helps verify the information and judgments contained in the report.

To help readers understand key areas of an agency's performance, reports should show links between each objective and the specific performance measures used to assess progress. Reports must explain how each selected measure is relevant.

As well, management must clearly define each measure. This enables readers to critically assess the methodologies used and compare results to previous periods or to other agencies. To enhance confidence in its reports, management needs to describe how it confirms accuracy including internal verification and the use of independent external parties such as auditors.

Finance wants agencies to explain changes in their vision, goals, objectives and measures. Agencies are required to explain how any new measures are good performance measures. Finance requires agencies to describe all performance measures, their relevance to the objective explained, and the data source given. Agencies are not required to describe how they are satisfied that the performance information is accurate. Finance does not require the agency to show information is credible such as having a reliable, independent party provided high level of assurance on the data (i.e., an audit).

Agencies are not required to include a statement identifying management's responsibilities for the content of the report.

Our conclusion and recommendation

Finance is working towards aligning its performance reporting guidelines with the CCAF principles. The guidelines address many of the CCAF principles. However, additional guidance is needed in the areas of setting targets, explaining key risks and key capacity, and the integration of financial and non-financial information.

Finance has not met its original implementation schedule of 2006-07 for its performance plans and annual reports guidelines. It no longer provides a road map explaining when guidelines will change. Advance notice of new reporting requirements is valuable to departments and Crown agencies that follow the guidelines. Advance notice gives guideline users time to plan for any needed changes to their systems so that required information will be readily available.

9. **We recommend that the Department of Finance prepare an implementation schedule for bringing its *Public Performance Reporting Guidelines* in line with CCAF reporting principles.**

Accountability framework – status of previous recommendations

Our 2004 Report – Volume 1, Chapter 9 emphasizes that every agency handling public money should use an accountability framework requiring public reports of results (p.126-135). That chapter recognized that the nature and capacity of agencies influences how they report to the public. In 2004, we recommended that the Government:

- direct all Treasury Board agencies to use an accountability framework that focuses on results
- require departments and Treasury Board agencies to publish their planned targets for major long-term results

On September 29, 2004, PAC agreed with these recommendations, as the capacity of agencies permits. This chapter explains responsibility for improving accountability by using various frameworks and describes action taken by the Government up to October 31, 2007 on these recommendations.

Responsibility for improving accountability

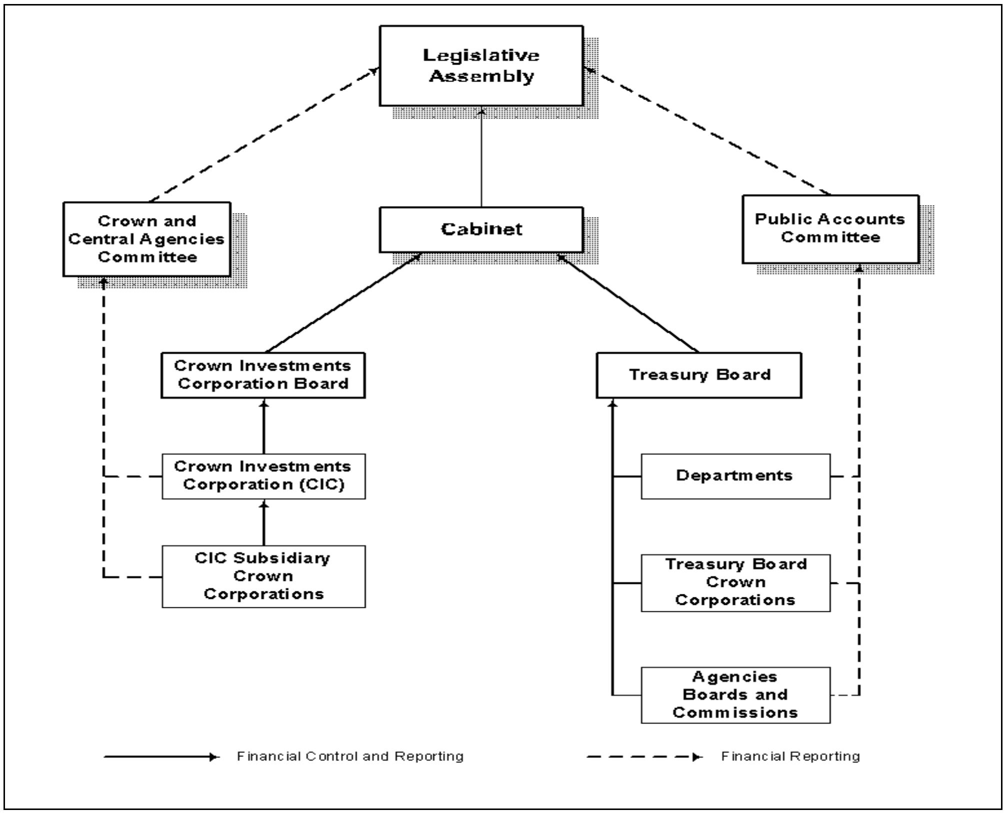
Government has two main oversight boards for over 270 agencies that handle public money (see Exhibit 4):

- The Crown Investments Corporation Board is responsible for the Crown Investment Corporation (CIC), its subsidiary corporations, and related pension plans. In this chapter, we refer to these agencies as CIC Crown agencies.
- Treasury Board is responsible for government departments and all other corporations, boards, commissions, and funds. In this chapter, we refer to these as Treasury Board agencies.

As of March 2007, Treasury Board was responsible for over 100 agencies or trust funds and 63 special purpose funds. Our 2004 recommendations are specific to Treasury Board agencies.

For accountability purposes, Treasury Board is responsible to direct the accountability framework used by over 100 agencies and trust funds. These include 22 departments or secretariats, over 20 related service delivery agencies (e.g., regional colleges, health authorities, legal aid, crop insurance), 41 other corporations and boards, and 7 pension funds. Finance and the Office of the Executive Council (Executive Council) are responsible to guide how these Treasury Board agencies manage and report their performance and to foster the importance of public accountability for results.

Exhibit 4 — Government's accountability structure



Source: p.8, *2007-2008 Saskatchewan Provincial Budget: Estimates*

Action on recommendations—improving accountability

Directing agencies to use an accountability framework

Treasury Board agencies and CIC Crown agencies take different approaches to accountability but both use frameworks that focus on results. Since 1998, CIC has directed all CIC Crown agencies to use the "balanced scorecard" framework to manage and report on their performance. Since 2002, Executive Council and Finance have directed government departments to use a "performance management" framework to promote accountability.[15] By 2005, all departments and three other agencies had adopted the performance management framework (i.e., Saskatchewan Communications Network, Saskatchewan Liquor and Gaming Authority, and Saskatchewan Watershed Authority). In addition, two cross-sector strategies use the performance management framework (i.e., *KidsFirst, Safe Drinking Water Strategy*).

Each spring, Finance and Executive Council jointly send the Call for Plans memo to government departments, two cross-government strategies, and a few agencies who receive money directly from the General Revenue Fund.[16] Also, each year, Finance provides departments and selected agencies with Public Performance Reporting Guidelines. In this way, Finance directly advises about 25 agencies to use the performance management framework to enhance their accountability to the public.

For example, the 2008-09 Call for Plans memo went to 22 departments and secretariats, and four other agencies (i.e., Saskatchewan Liquor and Gaming Authority, Saskatchewan Communications Network, Saskatchewan Watershed Authority, and the Saskatchewan Research Council). This memo sets out clear direction about the planning process and highlights expected changes in the content of performance plans (e.g., actions in support of cross-departmental efforts such as the *Green Strategy*).

Finance and Executive Council expect departments to lead the Treasury Board agencies related to them. Key departments are to guide their related agencies towards the use of a suitable accountability framework that focuses on results. For example, the Department of Health expects regional health authorities "to know that management is achieving the

[15] A copy of the framework is available at www.finance.gov.sk.ca/performance-planning/ (Accessed October 18, 2007).
[16] The Call for Plans memo sets out the expectations, timing, and review processes for the development and/or refinement of performance plans including goals, objectives, performance measures and key actions. Agencies then use these plans to guide and inform the preparation of budget requests. (Source: *Planning and Budget Cycle* in www.finance.gov.sk.ca/performance-planning/ See Performance Plans - Related Documents: Overview of the Performance Plan Cycle (Accessed October 30, 2007).

expectations set and that management is taking action where results are not being achieved."[17]

As of October 2007, the majority of larger Treasury Board agencies use an accountability framework that focuses on results. Some use the performance management framework; others use the balanced scorecard (e.g., Workers' Compensation Board, Saskatchewan Gaming Corporation).

An important part of accountability is to make agency plans public before the fiscal year begins and to report progress toward achieving the plan within a reasonable time after the fiscal year-ends.

As of October 2007, almost all departments publish plans and annual reports. However, Executive Council had not made public its performance plan or annual report. Sometimes departments do not publish timely performance plans, primarily due to significant changes or reorganization within their department. For example, the Department of Advanced Education and Employment, created in April 2006, had not published a performance plan for 2007-08 by October 31, 2007.

Most large Treasury Board agencies have published plans and reports that included at least some focus on results. [18] Some agencies used an accountability framework internally, but did not make their plans public (e.g., the Saskatchewan Association of Health Organizations). A few others published plans without objectives that focus on results (e.g., the Saskatchewan Institute for Applied Science and Technology and the Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation). Some large agencies did not report results compared to their planned objectives in their annual reports (e.g., the Saskatchewan Research Council).[19]

[17] Department of Health Accountability Document 2006-07 cover letter and pp.32-44.
[18] We have reported elsewhere on the planning and reporting practices of large pension and benefit plans in the Saskatchewan public sector.
[19] In October 2007, the Saskatchewan Research Council told us it plans to report its actual results compared to its planned targets beginning with its 2007-08 annual report.

Timely reporting of plans and results to the public strengthens internal management and public accountability. We expected that by October 2007, all large Treasury Board agencies would use a suitable accountability framework and have public plans and reports that focus on results. As noted above, a few did not. Through our audit work, we will monitor those agencies to determine whether they make public their plans and report their progress toward achieving their objectives.

Public targets for major long-term results

In 2004, we recommended that the Government require departments and Treasury Board agencies to publish their planned targets for major long-term results. Government agencies are more accountable when they make their targets public, particularly for major long-term results. All CIC Crown agencies report their progress toward targets in their public balanced scorecard reports.

Each year, Finance expects departments and three agencies to develop, for internal use, a one-year target for each measure.[20] These internal targets help agencies gain experience in selecting reasonable targets and achieving the targets they set.

For example, in its *Content Requirements for the 2008-09 Performance Plans*, Finance expects departments and the three agencies to "incorporate trend-line information for performance measures where available …and if trend-line data is not available, explain the reason why".[21] Reporting these trends, or results over time, makes it possible to assess the pace of change achieved by the resources allocated. Thus, reporting trends helps estimate realistic targets for achieving objectives.

A number of large Treasury Board agencies published targets in 2007, for example:

- Department of Highways and Transportation
- Saskatchewan Liquor and Gaming
- Saskatchewan Gaming Corporation
- Workers' Compensation Board

[20] Department of Finance *2008-09 Planning Guidelines—Detail,* p.22-23.
[21] Department of Finance *Content Requirements for 2008-09 Performance Plans*, p. 3.

Some of these public targets are short-term activity targets. Reporting progress toward activity targets (e.g., kilometres of road paved/year) is a helpful step toward making public the agency's targets for major long-term results.

A few agencies make public their targets for major long-term outcomes. For example, the Workers' Compensation Board has this public target: "to reduce the rate of time-loss injuries to 3.5% per 100 full time workers by 2010".[22] Also, the Government published targets for some cross-government initiatives. For example, the Energy and Climate Change Plan includes outcome targets.

Neither Finance nor Executive Council has identified a date by which Treasury Board agencies must make public their targets for major results.

We compared Treasury Board and CIC requirements for publishing planned targets for major, long-term results. We note that as a part of the balanced scorecard, CIC requires CIC Crown agencies to make public (in their annual reports) their goals, objectives, key measures, and targets.

We continue to recommend that the Government require Treasury Board agencies to publish their planned targets for major long-term results.

Status of other outstanding recommendations of the Standing Committee on Public Accounts

The following table provides an update on recommendations previously made by PAC that are not yet implemented and are not discussed earlier in this chapter.[23]

[22] Workers Compensation Board, Strategic and Operational Plan, p. 20.
[23] For the definitions of the key terms used in the table, see Chapter 25 – Standing Committee on Public Accounts pages 398 to 399.

PAC REPORT YEAR[24]	OUTSTANDING RECOMMENDATION	STATUS
Pension plans		
2002	PAC concurs: 8-1 that the Pension Plans should establish rules and procedures to ensure all retired members receiving a pension, who have returned to work for the Government, are paid in accordance with the law, or alternatively, the Pension Plans should seek changes to the law.	**Partially implemented** (for year-ends on or before March 31, 2007). Public Service Superannuation Plan and the Liquor Board Superannuation Plan did not have adequate rules and procedures to address this recommendation at the above date.
2007	PAC concurs: 5-1 that the Department of Finance should ensure it receives accurate reports for the claims paid for enhanced benefits of the Public Employees Dental Fund.	**Partially implemented** (as at December 31, 2006). Status will be followed up in December 2007 audit.
2007	PAC concurs: 5-2 that the Public Employees Pension Plan should prepare, approve, and test a complete disaster recovery plan.	**Partially implemented** (as at March 31, 2007). Some progress made in the year.
2007	PAC concurs: 5-3 that the Public Employees Pension Plan should document and approve all future changes to the computerized pension administration system.	**Not implemented** (as at March 31, 2005). Status will be followed up in 2008.
2007	PAC concurs: 5-4 that the Public Employees Pension Plan should document its risk assessments and action plans to reduce the risks to an acceptable level for the computerized pension administration system.	**Not implemented** (as at March 31, 2005). Status will be followed up in 2008.

[24] PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.