

## Industry and Resources

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## Main points

During 2006-07, we assessed the Department's progress in addressing the recommendations we made in 2003 for verifying producers' royalties and taxes, and in 2005 for identifying the Department's strategic risks.

We concluded that the Department has made progress in addressing our recommendations relating to the assessment and collection of all royalties and taxes due. However, it needs to do more to improve its:

- ◆ overall audit plan by including the estimated resources required to carry out the plan
- ◆ supervisory practices to ensure that audits are approved and carried out as planned

Also, the Department has made good progress identifying its strategic risks. Now, it needs to implement its established processes for identifying and quantifying the specific risks that it faces.

## Introduction

The Department of Industry and Resources (Department) is responsible for stimulating business investment and promoting development of the province's resource sector. The Department is also responsible for the administration of *The Tourism Authority Act*.

The Department's mandate is "to achieve full and responsible development of Saskatchewan's energy, mineral and forestry resources, work with businesses to expand the Saskatchewan economy by promoting, co-ordinating, and implementing policies, strategies and programs that encourage sustainable economic growth, and to optimize revenues to fund government programs and services."<sup>1</sup>

The Department received \$67.8 million from the General Revenue Fund for its programs. The following table shows the Department's major program spending and revenue.

### Spending

	<u>Original Estimates</u>	<u>Actual</u>
	(Millions of dollars)	
Investment Programs	\$ 44.2	\$ 21.2
Non-Renewable Resources	16.4	15.3
Industry Development	7.7	7.7
Administration	8.1	12.9
Transfer to Tourism Saskatchewan	7.9	7.9
Transfer to Saskatchewan Trade and Export Partnership Inc.	<u>2.8</u>	<u>2.8</u>
	<u>\$ 87.1</u>	<u>\$ 67.8</u>

The Department's 2006-07 Annual Report explains the differences between the budget and actual amounts.

<sup>1</sup> Saskatchewan. Department of Finance. (2007). *2006-2007 Saskatchewan Provincial Budget: Estimates*. Regina: Author. page 93.

**Revenues**

	<u>Original Estimates</u>	<u>Actual</u>
	(Millions of dollars)	
Natural Gas	\$ 186.0	\$ 165.1
Oil	989.8	1,318.9
Potash	279.1	161.7
Other	<u>56.9</u>	<u>63.5</u>
	<u>\$ 1,511.8</u>	<u>\$1,709.2</u>

The Department is also responsible for the Oil and Gas Environmental Fund (Fund). The purpose of the Fund is to provide a mechanism to clean up abandoned wells and respond to environmental problems associated with the exploration, development, production, and transportation of oil and gas.

In 2006-07, the Fund had revenue of \$122,975 and no expenses. At March 31, 2007, the Fund held assets of \$3.0 million. The Fund's financial statements are included in its annual report.

## **Our audit conclusions and findings**

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

- ◆ **The Department had adequate rules and procedures to safeguard public resources except for the matter reported below.**
- ◆ **The Department complied with the authorities governing its activities and the activities of the Fund regarding financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except that the Department made payments to NewGrade Energy Inc. without authority.<sup>2</sup>**
- ◆ **The financial statements of the Oil and Gas Environmental Fund are reliable.**

<sup>2</sup> See Appendix 2, page 2-11.

In this chapter, we also describe results of our follow up work relating to our past recommendations. In 2003, we made recommendations to improve the Department's processes to accurately assess and collect royalties and taxes. Also in 2005, we made recommendations to improve the Department's processes to identify strategic risks.

## **Better control over employees' pay needed**

The Department needs to better control employees' pay.

During the year, the Department reviewed its payroll costs during its review of monthly financial reports. However, the Department 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.

- 1. We recommend that the Department of Industry and Resources 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*.**

### **Follow up**

## **Procedures to verify producers' royalties and taxes**

In Chapter 4 of our 2003 Report –Volume 1, we assessed the adequacy of the Department's procedures to accurately assess and collect all royalties and taxes due to the Department and made the following three recommendations:

1. We recommend that the Department prepare an overall audit plan that ensures the accurate assessment and collection of all royalties and taxes due to the Department.
2. We recommend that the Department develop and implement a formal training/learning plan for its auditors.

3. We recommend that the Department improve its supervisory practices to ensure that audits are approved and carried out as planned.

The Standing Committee on Public Accounts (PAC) considered these matters in June 2004 and agreed with these recommendations.

As at August 31, 2007, the Department has implemented the second recommendation and has made significant progress in implementing the first and third recommendations.

The Department now prepares an overall annual audit plan. It includes an assessment of risks that helps ensure there is adequate audit coverage of all royalties and taxes. The plan, however, does not include estimated resources (i.e., budgets) required to carry out the plan. To properly manage the plan, the Department should estimate resources it needs to carry out the plan, what resources are available, and what changes it must make without compromising the objectives of the plan.

The Department has improved its supervisory practices for ensuring audits are approved and carried out as planned. However, not all audits that we reviewed had evidence of a supervisory review. The lack of supervisory reviews increases the risk that audits may not be properly carried out and/or key findings correctly reported.

We continue to recommend that the Department prepare an overall audit plan that ensures the accurate assessment and collection of all royalties and taxes due to the Department.

We continue to recommend that the Department improve its supervisory practices to ensure that audits are approved and carried out as planned.

## **Processes to identify strategic risks**

In Chapter 10 of our 2005 Report –Volume 1, we assessed the adequacy of the Department’s processes to identify strategic risks and made the following recommendations:

- ◆ We recommend the Department of Industry and Resources use systematic processes to detect risks to all its objectives.

- ◆ We recommend the Department of Industry and Resources quantify the likelihood and impact of strategic risks to identify priorities.

PAC considered these matters in June 2005 and agreed with these recommendations.

As at August 31, 2007, the Department has made good progress in addressing these two recommendations. The Department has provided formal training to staff in risk management. Also, it has established processes for identifying and quantifying risks. It is one of five departments working with the Performance Management Branch of the Department of Finance in piloting risk management approaches. However, the Department has not yet implemented its established processes for identifying and quantifying the specific risks that it faces. Management told us for its 2008-09 planning cycle, the Department plans to do so.

We continue to recommend that the Department of Industry and Resources use systematic processes to detect risks to all its objectives and to quantify the likelihood and impact of strategic risks to identify priorities.

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