

Main points	154
Introduction	155
Our audit conclusions and findings.....	156
Processes to plan for infrastructure needs – a follow-up	157
Expanding risk management framework	157
Documenting procedures for preparing analysis of electricity needs	158
Assessing alternate strategies consistently and documenting infrastructure risks	158
Conditions that allowed loss of public money – a follow-up.....	159

Main points

During 2007, we assessed SaskPower's progress in addressing the recommendations we made in 2006 on processes to plan for infrastructure needs related to electricity generation and the conditions that allowed a loss of public money.

We concluded that SaskPower has made significant progress in addressing our recommendations relating to its processes to plan for infrastructure needs, but it needs to do more to:

- ◆ assess alternative strategies that address identified infrastructure needs
- ◆ document specific infrastructure risks associated with its specific infrastructure decisions

Regarding our recommendations on the conditions that allowed a loss of public money, we concluded SaskPower has addressed our recommendations.

Also, for the year ended December 31, 2007, SaskPower, its three subsidiaries and the Power Corporation Superannuation Plan each had reliable financial statements, adequate processes to safeguard public resources, and complied with the authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

Introduction

Saskatchewan Power Corporation (SaskPower) is the principal supplier of electricity in Saskatchewan operating primarily under the mandate and authority of *The Power Corporation Act*. SaskPower's mission is to deliver power in a safe, reliable, and sustainable manner.

In 2007, SaskPower had consolidated revenue of \$1.5 billion and consolidated net income of \$138 million. At December 31, 2007, it held assets of \$4.5 billion. SaskPower's consolidated financial statements include the financial activities of SaskPower and the companies it wholly owns and controls (subsidiaries). At December 31, 2007, SaskPower's subsidiaries were: NorthPoint Energy Solutions Inc., SaskPower International Inc., and Power Greenhouses Inc. As well, SaskPower sponsors and manages the Power Corporation Superannuation Plan. The following provides a brief description of each.

North Point Energy Solutions Inc. (NorthPoint) trades electricity and manages SaskPower's natural gas requirements for its natural-gas power plants. Its trading functions include selling power and buying power for domestic use when a shortfall occurs or lower cost power is available. In 2007, NorthPoint had revenue of \$133 million including \$8 million in service fees from SaskPower and net income of \$13 million. At December 31, 2007, it held total assets of \$39 million.

SaskPower International (International) owns a wind farm that sells its power to SaskPower and partially owns three power-generating stations - two stations sell electricity to SaskPower and one station sells electricity into the Alberta power grid. International also sells flyash, a by-product of burned coal. In 2007, International had revenue of \$51 million and net income of \$19 million. At December 31, 2007, it held assets of \$406 million.

Power Greenhouses Inc. (Greenhouse) distributes tree seedlings for reclamation, habitat development, and restoration. It grows the seedlings using waste heat from the Shand Power Station. In 2007, SaskPower reimbursed Greenhouse for its total expenses of \$1 million. At December 31, 2007, it held assets of \$3 million.

The Power Corporation Superannuation Plan (Plan) is a defined benefit pension plan closed to new members since 1977. A Cabinet-appointed board administers the Plan. The Plan has 468 active members and about 1,720 pensioners. In 2007, the Plan received contributions of \$2 million from SaskPower and paid \$42 million to members. At December 31, 2007, the Plan held assets of \$836 million with liabilities of \$827 million.

SaskPower makes its annual report and audited financial statements and those of its subsidiaries available to the public at www.saskpower.com/aboutus/corpinfo/corpinfo.shtml.

Our audit conclusions and findings

Cabinet appointed Deloitte & Touche LLP as the auditor for SaskPower, two of its subsidiaries (International and NorthPoint) and the Plan and Meyer Norris Penny LLP as the auditor for Greenhouse. Our Office worked with each appointed auditor using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.¹

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

- ♦ **the financial statements of SaskPower, International, NorthPoint, Greenhouse, and the Plan are reliable**
- ♦ **SaskPower, International, NorthPoint, Greenhouse, and the Plan had adequate rules and procedures to safeguard their public resources**
- ♦ **SaskPower, International, NorthPoint, Greenhouse, and the Plan complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**

In the rest of this chapter, we set out actions taken on and the status of recommendations from Chapter 9 of our 2006 Report – Volume 1 and Chapter 12 of our 2006 Report – Volume 3. A future report will include the

¹ To view this report, see our website at www.auditor.sk.ca/rrd.html

status of recommendations made in Chapter 23 of our 2007 Report – Volume 3.

Processes to plan for infrastructure needs – a follow-up

Chapter 9 of our 2006 Report – Volume 1 includes the results of our audit of the adequacy of SaskPower's processes to plan for infrastructure needs related to generating electricity at December 31, 2005. It reports that SaskPower had adequate processes to plan for infrastructure needs relating to generating electricity except for the matters reflected in the following recommendations.

We recommended SaskPower:

1. expand its risk management framework to include risks related to electricity generation
2. document its procedures for preparing its analysis of electricity needs and its ability to meet those needs
3. use its new strategic plan to assess alternative strategies that address identified infrastructure needs
4. document the nature and extent of specific infrastructure risks that it accepts when it approves projects

The Standing Committee on Crown and Central Agencies agreed with these recommendations on January 10, 2007.

As explained below, at March 31, 2008, SaskPower has adequately addressed the first and second recommendations; we continue to make the last two recommendations listed above.

Expanding risk management framework

Risk management frameworks are useful in that they set out risk management activities on a broad basis, enable a common understanding of risk and risk management across an organization, and provide a systematic and structured approach to risk management

In 2007, SaskPower started to use a more robust risk management framework that includes assessment of risks related to electricity generation. Using a framework will help SaskPower identify, evaluate,

and treat significant risks more consistently. It used this new risk management approach in developing its Business Continuity Management Plan, 2008 Business Plan, and plans to use it in the development of other key planning documents.

At March 2008, SaskPower had not yet finalized its other key planning documents. Management expects SaskPower's executive committee and Board to approve the use of the framework in conjunction with their review and approval of key plans.

Documenting procedures for preparing analysis of electricity needs

Written processes set out what steps need to be taken, by whom, and when. Organizations need to document key processes to reduce the risk of errors

SaskPower's analysis of electricity needs and its ability to meet those needs is a key process that is very complex. SaskPower, through a series of various documents, has sufficiently documented its procedures for this process.

Assessing alternate strategies consistently and documenting infrastructure risks

Decisions must be consistent with an organization's direction and priorities. Organizations need key planning documents, like strategic plans, to help align their strategies, and prioritize and assess alternatives consistently with a full understanding of associated risks. Documenting the nature and extent of associated risks helps organizations monitor and address the risks appropriately.

In early 2007, SaskPower changed its planning processes. To make its planning more consistent, SaskPower assigned the responsibility for planning and preparing SaskPower's key planning documents to the Planning, Environment, and Regulatory Affairs business unit and created a cross-functional working group to assist in planning.

In late October 2007, the Board of SaskPower approved its 2008 -2017 strategic plan. The plan includes SaskPower's high-level strategic

priorities. As noted above, SaskPower had not yet finalized its other key planning documents (e.g., integrated resource plan).²

When these updated plans are complete, SaskPower should be better able to assess alternative strategies that address identified infrastructure needs.

As well, SaskPower's new approach to risk identification, assessment, and mitigation will help staff better document and monitor specific risks accepted when decisions on infrastructure projects are made.

Conditions that allowed loss of public money – a follow-up

Chapter 12 of our 2006 Report – Volume 3 sets out conditions that allowed a loss of just less than \$190,000 to occur and remain undetected over a four-year period (from May 2002 to March 2006). To help SaskPower reduce the risk of future losses of public money, we recommended SaskPower:

1. educate its staff on the following:
 - ♦ the importance of the controls necessary to safeguard public resources to increase their understanding of the purpose of these processes
 - ♦ the importance of signing officers' role to verify the receipt of goods or services and invoices (including procurement purchases and employee expense claims) against supporting documents prior to granting their approval
 - ♦ the warning signs that may indicate fraud and error and of the employees' duty to bring that information forward
2. require work units, when substantially changing an employee's duties, to assess and document for management's approval changes in assigned duties that increase the risk of fraud and error, and the procedures they will use to compensate

² The integrated resource plan will include long-term generation options, demand side management options, an assessment of import/export options, long-term load requirements and transmission planning.

The Standing Committee on Crown and Central Agencies agreed with these recommendations on May 1, 2007.

At March 31, 2008, SaskPower had adequately addressed these recommendations.