

# Agriculture

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## Main points

The Ministry of Agriculture uses the Provincial Dairy Lab to carry out some of its regulatory responsibilities. In April 2006, Agriculture transferred responsibility to operate the Lab to the Milk Control Board without proper legislative authority. Agriculture needs to comply with the law or seek changes to allow the transfer of its regulatory responsibilities to another agency.

Agriculture needs to better document key assumptions used when making significant accounting estimates.

Also, Agriculture needs to follow its processes to prepare accurate financial reports and statements for the Saskatchewan Agricultural Stabilization Fund.

Saskatchewan Crop Insurance Corporation made some progress in better controlling its computer systems and in meeting our 2007 recommendations about its premium rate-setting processes. However, more work remains.

## Introduction

The purpose of the Ministry of Agriculture (Agriculture) is to enable a prosperous market-driven agricultural industry through a supportive legislative framework, policies, and programs and services.<sup>1</sup>

### Special purpose funds and Crown agencies

At March 31, 2009, Agriculture was responsible for the following special purpose funds and Crown agencies (agencies). Each one has a March 31 year-end unless otherwise noted.

Agricultural Credit Corporation of Saskatchewan (ACS)  
Agricultural Implements Board  
Agri-Food Council  
Beef Development Board  
Cattle Marketing Deductions Fund  
Crop Reinsurance Fund of Saskatchewan  
Horned Cattle Fund  
Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund  
Livestock Services Revolving Fund  
Milk Control Board (December 31)  
Pastures Revolving Fund  
Prairie Agricultural Machinery Institute  
Saskatchewan Agricultural Stabilization Fund (SASF)  
Saskatchewan Crop Insurance Corporation (SCIC)  
Thomson Meats Ltd. (December 31)  
Pension Plan for the Employees of Thomson Meats Ltd. (December 31)

### Financial overview

For the year ended March 31, 2009, the Government's total agricultural expenses were \$727 million and its agricultural-related revenues were \$591 million. Exhibit 1 sets out expenses by program and revenues by source as reflected in the Government's 2008-09 summary financial statements.

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<sup>1</sup> Government of Saskatchewan, *Ministry of Agriculture, Plan for 2009-10*, p. 1.

**Exhibit 1:**

	<u>2009</u>	<u>2008</u>
	(in millions of dollars)	
Agriculture expenses by program:		
Crop Insurance	\$ 346	\$ 243
Farm Stability	131	127
Other	<u>250</u>	<u>150</u>
	<u>\$ 727</u>	<u>\$ 520</u>
Agriculture revenue by source:		
Federal Government	\$ 195	\$ 138
Producers' Crop Insurance Premiums	188	117
Sales, Services, Fees and Other	<u>208</u>	<u>113</u>
	<u>\$ 591</u>	<u>\$ 368</u>

During 2008-09, Agriculture spent \$424 million (2008 - \$302 million) and had revenues of \$149 million (2008 - \$59 million). Agriculture's Annual Report provides further detail including reasons for differences from its approved budget.<sup>2</sup>

## Audit conclusions and findings

This chapter contains the results of our audits of Agriculture and its agencies for the years ended March 31, 2009.

Chapter 2 of our 2009 Report – Volume 1 reported our interim audit findings for our audit of the Milk Control Board for the year ended December 31, 2008. This chapter sets out the results of our audits of the Milk Control Board's 2007 and 2008 financial statements.

Our Office worked with KPMG LLP, appointed auditor for SASF, SCIC, and Crop Reinsurance Fund of Saskatchewan and Meyers Norris Penny LLP, appointed auditor for ACS. For these agencies, we used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* ([www.auditor.sk.ca/rrd.html](http://www.auditor.sk.ca/rrd.html)). For the related agencies, our Office and its appointed auditor formed the opinions below.

<sup>2</sup> The Ministry's annual report is available on its website at <http://www.agriculture.gov.sk.ca>.

**In our opinion, for the year ended on or before March 31, 2009:**

- ◆ **Agriculture and its agencies had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**
- ◆ **Agriculture and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matter reported in this chapter**
- ◆ **The financial statements of the agencies are reliable**

Also, the chapter provides an update on recommendations from our 2007 examination of Saskatchewan Crop Insurance Corporation's processes to set premium rates and on the status of outstanding recommendations made by the Standing Committee on Public Accounts (PAC).

## **Accounting estimates need strengthening**

Agriculture did not consistently document assumptions used when making significant accounting estimates.

Preparing financial information consistent with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts recorded and reported. Accounting estimates and assumptions inherently involve significant judgments and uncertainties. Assumptions must reflect conditions management expects to exist and courses of actions it expects to take. Estimates routinely require revisions because of changes in circumstances or new information. Clear documentation (e.g., of method used, supporting data, key assumptions) is necessary to carry out an appropriate independent review of the estimate's reasonableness and facilitates efficient future revisions.

Agriculture makes significant accounting estimates each year. For example, it estimates the amount of receivables (including loans receivable) that it may not collect (i.e., \$9.2 million at March 31 2009) and

the cost of providing loans with concessionary terms.<sup>3</sup> Also, because information on actual costs or revenues is not available until a later date (such as for its various business risk management programs where it shares costs with the Government of Canada), Agriculture estimates the amount it expects to receive from or pay to the Government of Canada (i.e., \$4 million receivable and \$140 million payable at March 31, 2009.) Also, for significant tangible capital assets (such as land), it estimates whether its recorded amounts are significantly and permanently less than the value of goods and services expected or other future economic benefits.

During the year, Agriculture reduced the recorded value of its land by \$8.1 million and was not able to provide us with sufficient evidence to support this reduction in value. Agriculture owns almost seven million acres of land (mostly pastures). Management based its reduction on the difference between its recorded value of land and its calculation of current fair market values.<sup>4</sup> Management was unable to show us how its calculation of fair market value considered the following factors: public information about recent increases in farmland values<sup>5</sup> and its recent history of financial gains on the sale of its land.<sup>6</sup> Agriculture did not set out, in writing, its key assumptions (that is, conditions it expected to exist and the actions it expected to take) about these factors.

Without documenting key assumptions used in developing significant accounting estimates, there is an increased risk of making incorrect accounting entries. Recording incorrect accounting entries can lead to producing incorrect information for decision-making.

- 1. We recommend the Ministry of Agriculture consistently document key assumptions used when making significant accounting estimates.**

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<sup>3</sup> Concession terms include loans with interest rates significantly below the Government's average cost of borrowing and with no repayment terms.

<sup>4</sup> The Ministry used calculated current fair market value with reference to market values from the Saskatchewan Assessment Management Agency.

<sup>5</sup> Farm Credit Corporation reports that farmland values in Saskatchewan increased by 14.4% during 2008-09. See <http://www.fcc-fac.ca/en/Products/Property/FLV/Spring2009/index.asp#sk> (28 Jul 2009).

<sup>6</sup> The Ministry recorded total gain on sale of land of \$3.5 million in 2008-09 and \$3.9 million in 2007-08.

## Unauthorized transfer of the Provincial Dairy Laboratory

As previously reported, Agriculture transferred the responsibility to operate the Provincial Dairy Laboratory (Dairy Lab) from Agriculture to the Milk Control Board without proper legislative authority.<sup>7</sup> Consequently, the Board spent about \$1 million from April 1, 2006 to March 31, 2009 on the Dairy Lab's activities without proper authority.

During 2008-09, Agriculture started to work on drafting changes to the related legislation. At June 30, 2009, the related legislation has not changed and although Agriculture has not reimbursed the Board for the Dairy Lab costs, it has reached agreement with the Board on the amount it expects to pay.

We continue to recommend the Ministry of Agriculture comply with the law or seek changes to the law to allow the transfer of its regulatory responsibilities carried out by the Dairy Lab to another agency.

PAC considered this matter on December 8, 2008 and agreed with our recommendation.

## Saskatchewan Crop Insurance Corporation

### Background

The Saskatchewan Crop Insurance Corporation (SCIC) is a Crown corporation established under *The Crop Insurance Act*. SCIC administers a crop insurance program for crop losses due to weather-related and other natural perils. The program guarantees a minimum crop yield and quality of grain to agricultural producers, subject to specific insurance decisions made by each producer. Crop producers and both the Government of Saskatchewan (Saskatchewan) and the Government of Canada (Canada) pay for this program in accordance with the rules set out in the Canada-Saskatchewan Implementation Agreement (Agreement).

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<sup>7</sup> See Chapter 3 of our *2008 Report – Volume 3* and Chapter 2 of our *2009 Report – Volume 1*. These reports are available at [www.auditor.sk.ca](http://www.auditor.sk.ca).

SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Fund). The Fund receives premiums from SCIC and pays SCIC based on formulas established under the Agreement.

SCIC's 2009 Annual Report<sup>8</sup> includes its financial statements. Those financial statements report that SCIC had premium revenues of \$468 million and claim expenses of \$99 million for the year and held total assets of \$422 million at March 31, 2009.

In 2008, the Fund's financial statements report that the Fund had revenue of \$69 million and had an accumulated deficit of \$3 million at March 31, 2009. During 2009, the Fund did not pay SCIC.

### **Better processes required over computer systems**

To improve its processes over its computer systems, in our 2008 Report – Volume 3, we recommended that the SCIC establish adequate processes:

- ◆ for making changes to its computer systems
- ◆ to grant and monitor employee access to its computer systems and data

On December 8, 2008, PAC agreed with our recommendations.

SCIC made some progress both in improving its procedures for making changes to computer systems and in ensuring employees follow the established procedures.

SCIC has not changed its computer systems to assign a unique identifier to all users. This would enable SCIC to track which user makes a change or accesses the computer systems and data.

Employees do not always follow existing documented procedures that require them to document computer systems changes, obtain approval for changes, and independently test changes to make sure they work properly before they are used. For example, during the year, SCIC did not regularly review changes to computer systems made by those employees with complete access to the computer systems and all data. Also, for

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<sup>8</sup> SCIC's Annual Report is available at [www.saskcropinsurance.com](http://www.saskcropinsurance.com).



those employees, SCIC does not monitor that they regularly change their passwords. Although SCIC requires employees to sign a security form indicating that they are aware of the security requirements and agree to follow them, not all employees have signed the forms.

Without adequate processes over changes and access to its computer systems, there is an increased risk of incorrect premiums and claim payments. Also, without properly secured data, there is an increased risk of loss of personal information.

We continue to recommend the Saskatchewan Crop Insurance Corporation establish adequate processes for making changes to its computer system.

We continue to recommend the Saskatchewan Crop Insurance Corporation establish adequate processes to grant and monitor employee access to its computer systems and data.

Management told us it is improving its processes to ensure changes are properly documented, tested, and approved.

## **Premium rate setting process – follow-up**

In this section, we provide, at March 2009, the status of our recommendations from our 2007 examination of SCIC's processes to set premium rates that comply with the Canada-Saskatchewan Implementation Agreement and *The Crop Insurance Act*. In our 2007 Report – Volume 3, we recommended that:

- ◆ SCIC document and approve all its procedures for calculating premium rates
- ◆ SCIC establish and document procedures to check the accuracy of data and formulas used to calculate premium rates
- ◆ SCIC's Board of Directors approve an internal auditor plan that includes follow up of the internal auditor's recommendations

On June 16, 2008, PAC agreed with our recommendations.

As noted below, while SCIC has made some progress on each of these recommendations, more work remains.

### ***Procedures for calculating premium rates***

SCIC has established written procedures for calculating premium rates. These procedures include explaining significant changes in premium rates. However, management did not formally approve the procedures.

### ***Procedures for data and formula accuracy***

SCIC has established written procedures for checking the accuracy of data and formulas used to calculate premium rates. However, for some premium rates, the same person calculated the rate and checked it for accuracy. Also, there is not consistent evidence that the premium calculations were checked. To reduce the risk of incorrect premiums rates, someone independent of initially calculating the premium rates should verify them and document his/her review of the rates.

Management told us that it is developing further written procedures that require staff to document their checking of premium rate calculations.

### ***Approval of internal audit plan***

In June 2008, the Board of Directors approved the internal auditor's plan. The plan includes following up on the internal auditor's recommendations to verify that they have been properly addressed. The internal auditor told us follow up of recommendations is limited to a discussion of the action taken to address the recommendations. To make sure management appropriately addresses recommendations, the internal auditor's follow-up should include examining evidence that management has acted on the recommendations.

## **Saskatchewan Agricultural Stabilization Fund**

### **Background**

Agriculture administers the Saskatchewan Agricultural Stabilization Fund (SASF). The Government of Saskatchewan (Saskatchewan) administers all the following programs except AIDA and CFIP. The Government of Canada (Canada) administers those programs. Canada and Saskatchewan have agreed to share the costs of all of these programs.

Canada-Saskatchewan Assistance Program (CSAP)  
Canada-Saskatchewan Specified Risk Material Management Program (SRM)  
Farm and Ranch Water Infrastructure Program (FRWI)  
The Canada-Saskatchewan Bovine Spongiform Encephalopathy Recovery Program (BSE)  
The New Crops Insurance Program  
The Wildlife Damage Compensation Program  
The Agricultural Income Disaster Assistance Program (AIDA)  
The Canadian Farm Income Program (CFIP)

The laws governing the above programs and the agreements between Canada and Saskatchewan require that Agriculture must use money paid into SASF only for the purposes of those programs. In addition, Agriculture must return to Canada and Saskatchewan (General Revenue Fund) at the end of the programs any money received and not used to pay for program costs. SASF operates on a break-even basis except for the interest income earned on advances, which SASF may keep.

SASF's financial statements include the financial activities of all of the programs. SASF's financial statements for the year ended March 31, 2009 report revenues of \$20.1 million and expenses of \$11.1 million. The financial statements also report net financial assets of \$23.5 million at March 31, 2009.

## **Employees need to follow established processes**

Agriculture needs to ensure its employees follow established processes for preparing financial reports and the year-end financial statements for the Fund.

Agencies need accurate and timely financial reports to make informed decisions. They need to define the financial reports necessary to monitor operations and to establish processes to prepare those financial reports.

Agriculture has defined the financial reports it needs to monitor the operations of the Fund. It requires quarterly internal financial reports and annual financial statements. Agriculture has also established and communicated written guidance for employees to follow when preparing

the Fund’s financial reports and the year-end financial statements. However, employees did not always follow that guidance.

For example, during the year, employees did not record all of the assistance owing to others such as producers and operators of slaughter facilities, in the Fund’s internal financial reports. Also, the financial statements for the year ended March 31, 2009 provided for audit were inaccurate. These draft financial statements understated FWRI program expenses by \$0.7 million and overstated the SRM program expenses by \$2.6 million.

Agriculture corrected the year-end financial statements when informed of the errors. Inadequate and incomplete financial reports increase the risk of inappropriate or incorrect financial decisions.

2. **We recommend the Ministry of Agriculture follow its established processes for preparing accurate internal financial reports and year-end financial statements for the Saskatchewan Agricultural Stabilization Fund.**

## 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.<sup>9</sup>

PAC REPORT YEAR <sup>10</sup>	OUTSTANDING RECOMMENDATION	STATUS
<b>Ministry of Agriculture – Milk Control Board</b>		
2009	PAC concurs: 3-2 that the Milk Control Board provide its staff with support and training to increase their understanding of accounting standards.	<b>Not implemented</b> (as at March 31, 2009).  We plan to assess status in conjunction with our 2009 audit of the Board.

<sup>9</sup> For the definitions of the key terms used in this table, see Chapter 20 – Standing Committee on Public Accounts.

<sup>10</sup> PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly

PAC REPORT YEAR <sup>10</sup>	OUTSTANDING RECOMMENDATION	STATUS
<b>Ministry of Agriculture (Regulating Pesticides)</b>		
2009	PAC concurs: 2-1 that the Ministry of Agriculture formally analyze the risks that licensees and exempt persons are not following pesticide control laws.	<b>Partially implemented</b> (as at March 31, 2009).  We plan to do a second follow-up in 2010; the results of our first follow-up are in Chapter 3 of our 2008 Report – Volume 3.
2009	PAC concurs: 2-2 that the Ministry of Agriculture document its strategy to address identified risks associated with monitoring and enforcing compliance with pesticide control laws.	<b>Partially implemented</b> (as at March 31, 2009).  We plan to do a second follow-up in 2010; the results of our first follow-up are in Chapter 3 of our 2008 Report – Volume 3.

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