

Enterprise and Innovation programs

5

Main points	70
Introduction	71
Financial overview	71
Audit conclusions and findings	72
Verifying compliance of LSVCC's investments.....	72

Main points

The Minister of Enterprise is responsible for three programs: Small Business Loans Association program, Ethanol Fuel (grant) program, and the Labour-sponsored Venture Capital Corporations program. In this chapter, we refer to them as the Enterprise and Innovation programs. Since November 1, 2008, the Ministry of Finance and Enterprise Saskatchewan jointly administer the Enterprise and Innovation programs.

The Labour-sponsored Venture Capital Corporations program is designed to encourage individuals to invest in businesses that often have difficulty raising capital by other means. It does this by providing eligible individuals with provincial income tax credits. These tax credits reduce the amount of provincial income taxes that these individuals would otherwise need to pay. In 2008-09, Enterprise Saskatchewan issued provincial income tax credits totalling \$11.6 million under this program.

Enterprise Saskatchewan provides the day-to-day administration of this program. It did not have adequate processes to make certain it issues provincial tax credits under this program only to eligible individuals.

Introduction

The Minister of Enterprise is responsible for the Small Business Loans Association program, Ethanol Fuel (grant) program, and Labour-sponsored Venture Capital Corporations program (Enterprise and Innovation programs). Prior to November 1, 2008, the former Ministry of Enterprise and Innovation was responsible for the delivery of these programs. The Government disestablished this Ministry effective October 31, 2008.

Since November 1, 2008, the Minister of Enterprise has entered into an Administrative Services Agreement with Enterprise Saskatchewan and the Ministry of Finance. Under this agreement, they become jointly responsible for the delivery of these programs on behalf of the Minister.

For each of these programs, Enterprise Saskatchewan provides the Minister with ongoing administration. Ongoing administration included the following:

- ◆ for the Small Business Loans Association program – processing new loans, collecting loan repayments, and monitoring existing loans
- ◆ for the Ethanol Fuel (grant) program – processing new grants.
- ◆ for the Labour-sponsored Venture Capital Corporations (LSVCC) program – processing new and recovering certain tax credit certificates and monitoring investments of LSVCC

For each of these programs, the Ministry of Finance authorized and disbursed the related payments from the General Revenue Fund (GRF) and recorded the receipt of cash, if any, into the GRF.

Financial overview

For the year ended March 31, 2009, Small Business Loans of \$11.6 million were outstanding with \$36 thousand disbursed (estimate-\$5.5 million) and \$56 thousand repaid and/or written off in 2008-09. Also, Enterprise Saskatchewan issued \$11.6 million of provincial income tax credits in 2008-09 under the LSVCC program. The following is a list of

Chapter 5 – Enterprise and Innovation programs

spending of the Enterprise and Innovation programs by program for the year ending March 31, 2009:

	<u>Original Estimates</u> ¹	<u>Actual</u>
	(in thousands of dollars at March 31)	
Small Business Loan Associations	\$ 1,133	\$ 397
Ethanol Fuel Tax Rebate (grants)	<u>21,000</u>	<u>19,281</u>
	<u>\$ 22,133</u>	<u>\$ 19,678</u>

Audit conclusions and findings

In our opinion, for the year ended March 31, 2009:

- ◆ **Enterprise Saskatchewan and the Ministry of Finance had adequate rules and procedures to safeguard public resources related to the Enterprise and Innovation programs except for the matter reported in this chapter**

- ◆ **Enterprise Saskatchewan and the Ministry of Finance complied with the authorities governing the Enterprise and Innovation programs' activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing except for the matter reported in this chapter**

Verifying compliance of LSVCC's investments

Enterprise Saskatchewan did not have adequate processes to make certain it issues provincial income tax credits under *The Labour Sponsored Venture Capital Corporations Act* only to eligible individuals.

The LSVCC program encourages individuals to invest in businesses that often have difficulty raising capital by other means. Under the LSVCC program, individuals investing in shares of a provincially-registered LSVCC or in a qualified federally-registered LSVCC are eligible for income tax credits (provincial and federal) up to a combined maximum credit of \$1,000 each year. To become provincially-registered and maintain this registration, Labour-sponsored venture capital corporations

¹ *Saskatchewan Provincial Budget 08-09—Ready for Growth Estimates*, Enterprise and Innovation, Vote 43, Investment programs (E103). p. 58.

must invest in Saskatchewan-based small and medium sized businesses that meet the conditions set out in *The Labour Sponsored Venture Capital Corporations Act* (Act) (e.g., employ no more than 500 employees and pay out a minimum of 25% of their salaries and wages to Saskatchewan residents).

Under the Agreement with the Minister of Enterprise, Enterprise Saskatchewan issues LSVCC tax credit certificates to individuals. It is also responsible for registering corporations provincially and determining whether these corporations continue to comply with the Act. The corporations must continue to comply to maintain their registration and so that their investors continue to be eligible for tax credits.

During 2008-09, Enterprise Saskatchewan's monitoring activities consisted of collecting and reviewing information from LSVCCs on an annual and ongoing basis and informally following up with corporations on information it found questionable. Other than the LSVCCs' audited financial statements, information that Enterprise Saskatchewan receives from LSVCCs is not audited.

In prior years, Enterprise Saskatchewan (or its predecessor) audited some corporations. In our review of these past audits, we noted that some LSVCCs operated for more than five years and had never been audited and that some other large and actively investing LSVCCs were last audited 9 years ago.

Enterprise Saskatchewan did not formally assess the risk of LSVCCs not complying with the Act and did not maintain an audit program that set out which corporations were selected for audit, when, and why.

Reliance on unaudited information submitted by LSVCCs is not sufficient to ascertain compliance with the law. To determine whether corporations complied with the law and to encourage their compliance, we expected Enterprise Saskatchewan to verify the accuracy of the unaudited information that the corporations provided through the use of periodic risk-based audits. To determine which corporations to audit and when, we expected Enterprise Saskatchewan would analyse the risk of corporations not complying with the Act and develop and carry out an audit program that would both deter and detect corporations' non-compliance with the

Act. The exhibit below provides further detail on documented risk analysis and audits.

Lack of a documented risk analysis and audit program increases the risk that Enterprise Saskatchewan may issue income tax credits to individuals for investments that do not meet the eligibility criteria set out in the Act.

- 1. We recommend that Enterprise Saskatchewan develop and carry out a risk-based audit program to verify labour-sponsored venture capital corporations' compliance with *The Labour Sponsored Venture Capital Corporations Act*.**

Exhibit:

A documented risk analysis:

- ◆ includes identifying and ranking areas of potential non-compliance. Factors affecting non-compliance may include size of the LSVCC, sudden change of its management, diversity of its investments, extent of audited information available, and results of past audits.
- ◆ enables organizations to develop an audit program that would allow them focus resources on areas where non-compliance is of greatest risk and impact (i.e., risk-based audit program).

The audit program would set out which corporations are selected for audit and when along with factors that may change the timing of the audit. Audits required by the audit program would:

- ◆ verify the accuracy of information provided by corporations
- ◆ determine corporations' compliance with the Act and in particular, if their investments meet the requirements of the Act
- ◆ recommend whether corporations' registration should continue, and if not, actions required (e.g., suspension of registration, recall of issued tax credits for ineligible investments).