Finance

7

7

Finance

Main points

The 2009 financial statements of the General Revenue Fund (GRF) contain significant errors. Treasury Board continues to use inappropriate accounting policies to account for pension costs and to record transfers between the GRF and the Growth and Financial Security Fund. For example, the reported net debt of $3.85 billion should be $8.07 billion and the reported annual surplus of $2.39 billion should be $1.62 billion.

The Ministry of Finance (Finance) needs to follow its established procedures over bank reconciliations. Finance made some progress on improving its processes related to its treasury management activities and developing its business continuity plan and human resource plan, but more work remains. It made considerable progress in improving its Provincial Sales Tax audit selection process and has plans for further improvements.

Finance had adequate oversight of its information technology except for two matters. It needs a risk management plan based on analysis of its information technology risks. It also needs to implement a strategic information technology plan.

The Public Employees Benefits Agency (PEBA), a branch of Finance, needs better policies for bank reconciliations and journal entries for the various pension and benefit plans it administers. Also, PEBA, the Public Employees Pension Plan, and the Public Service Superannuation Plan need to complete business continuity plans to ensure they can provide critical services in the event of a disaster.

Also, as required by law, the annual report of the Public Service Superannuation Board discloses detailed personal information. The requirement to report this information is inconsistent with those of other government pension plans and may be inconsistent with privacy legislation. The Board needs to seek changes to the law to remove the current requirement to disclose personal information.

This page left blank intentionally.

Introduction

This chapter sets out the results of our audit of the financial statements of the Government of Saskatchewan along with the results of our audits of the Ministry of Finance (Finance) and its agencies for the year ended March 31, 2009. This includes the results of our audit of Finance's processes for oversight of its information technology.

Also, the chapter includes Finance's progress towards meeting the recommendations from our 2007 Report – Volume 3 relating to Finance's Provincial Sales Tax audit selection process.

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.

Also, 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[1]:

- administering and collecting provincial taxes
- arranging government financing, banking, investing, and borrowing
- administering certain public sector pension and benefit plans
- receiving revenues from taxation and transfers
- controlling spending from the General Revenue Fund (GRF)
- maintaining ministry-wide revenue and expense systems including the financial modules of the computerized Multi-informational Database Applications system (called MIDAS Financials)

[1] Ministry of Finance. (2009). *2008-09 Annual Report*. Regina: Author

- 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 or collective bargaining
  - financial management and accounting
  - annual performance planning, measuring, and reporting processes

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 Growth and Financial Security Fund) provides the Legislative Assembly with audited financial statements; some also provide an annual report.

Year ended March 31
General Revenue Fund
Growth and Financial Security Fund[2]
Judges of the Provincial Court Superannuation Plan
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund
Saskatchewan Watershed Authority Retirement Allowance Plan

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

[2] This Fund does not prepare financial statements; and is not required to do so.

Public Employees Group Life Insurance Fund
Saskatchewan Government Insurance Service Recognition Plan
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
SaskPower Supplementary Superannuation Plan

Chapter 5 of our 2009 Report – Volume 1 contains the results of our audits of the agencies with years ended December 31, 2008.

Overview of the Ministry's finances

For the year ended March 31, 2009, Finance administered revenues of $7.6 billion and spent approximately $0.9 billion. Major revenues include:

	Original Estimates	Actual
	(millions of dollars)	
Taxes	$ 4,304.8	$ 4,422.7
Transfers from the Federal Government	1,180.7	1,498.1
Transfers from government entities	956.3	837.1
Non-renewable resources	366.2	458.3
Other own-source revenue	236.2	344.8
Total	$ 7,044.2	$ 7,561.0

The following is a list of major programs and spending:

	Original Estimates	Actual
	(millions of dollars)	
Revenue	$ 19.0	$ 18.0
Provincial Comptroller	8.9	8.3
Central management and services	6.7	6.1
Budget analysis	5.0	4.5
Treasury and debt management	2.9	2.6
Other	1.8	1.3
Operations	44.3	40.8
Finance – servicing government debt	535.0	520.2
Public service pension and benefits[3]	254.3	294.1
Total spending	$ 833.6	$ 855.1

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

Audit conclusions and findings

To form our opinion on the Public Employees Pension Plan, our Office worked with Meyers Norris Penny LLP, its appointed auditor. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.[4]

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

- **the Government's Summary Financial Statements included in the *Public Accounts 2008-2009 Volume 1* are reliable**

- **the General Revenue Fund's financial statements included in the *Public Accounts 2008-2009 Volume 1* are reliable except for not recording all amounts owed for pension liabilities and improper recording of transfers between the**

[3] The estimates for public service pension and benefits are determined using the cash basis instead of the accrual basis of accounting. The actual public service pension and benefits expense of $294.1 million is determined using the accrual basis of accounting. This amount is restated from $250.0 million (the cash-based amount reported in Finance's annual report) to include $44.1 million of unrecorded pension costs.
[4] This report is available on our website at www.auditor.sk.ca/rrd.html.

General Revenue Fund and the Growth and Financial Security Fund

- **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**

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2009, the Government approved, though Orders in Council, spending of $240.2 million; the Assembly later approved these amounts through an appropriation act.

This chapter also provides an update on the status of recommendations from the Standing Committee on Public Accounts (PAC).

Better control over bank accounts needed

Finance did not follow its established rules and procedures to complete its bank reconciliations.

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 those 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 correct account. It also provides a check on the accuracy and reliability of Finance's accounting records. Furthermore, timely bank reconciliations help detect errors or misuse of money quickly.

In 2008-09, Finance did not reconcile the GRF's bank account promptly. Bank reconciliations for June, July, and August were each completed three to four months after the end of the month.

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

Finance told us the following. Staff reconcile amounts paid per its accounting records to bank records each day. Staff are required to complete GRF bank account reconciliations by the end of the following month (e.g., June 30th reconciliation is to be done by July 31st). The delays in completing the above-noted bank reconciliations were due to the absence of staff during summer holidays. In May 2009, Finance staffed the "Bank Services Supervisor" position to improve the timelines of its bank reconciliations.

Further action on past recommendations needed

In our 2009 Report – Volume 1, we made six recommendations relating to Finance's treasury management. During 2008-09, Finance implemented two of these recommendations and, as set out in Exhibit 1, took some action on the remaining four recommendations. However, more work remains.

Also, as noted in Exhibit 1, Finance took some action to address our previous recommendations on information technology and human resource plans but it has not fully implemented them.

PAC has agreed with each of the recommendations set out in Exhibit 1.

Exhibit 1 – Status and actions taken on previous outstanding recommendations

Recommendation (initial report of recommendation and PAC's review of recommendation)	Actions Finance took in 2008-09	Status of recommendation
Treasury management		
We recommend the Ministry of Finance set out its investment expectations in sufficient detail to make possible the measurement and evaluation of its investment performance. (2009 Report – Volume 1 - Chapter 5; PAC agreed with recommendation on September 1, 2009)	Finance started to research and consider potential benchmarks to be used in performance measurement.	**Partially implemented**
We recommend the Ministry of Finance periodically carry out an internal audit to assess and report to senior management on compliance with its investment guidelines and expectations. (2009 Report – Volume 1 - Chapter 5; PAC agreed with recommendation on September 1, 2009)	Finance had preliminary discussions regarding who will perform the audit.	**Partially implemented**
We recommend the Ministry of Finance monitor and report publicly on the performance of the investments in its sinking funds. (2009 Report – Volume 1 - Chapter 5; PAC agreed with recommendation on September 1, 2009)	None	**Not implemented**
We recommend the Ministry of Finance document its key treasury management procedures in sufficient detail so it can continue to operate effectively after staff turnover. (2009 Report – Volume 1 - Chapter 5; PAC agreed with recommendation on September 1, 2009)	Finance compiled some documentation on money market investing and debt issuance and noted that additional documentation is required. For example, during our 2008-09 audit, we noted staff turnover resulted in one treasury management individual preparing and approving journal entries for part of 2008-09. Finance does not have documented procedures around preparation and approval of treasury management journal entries.	**Partially implemented**

Recommendation (initial report of recommendation and PAC's review of recommendation)	Actions Finance took in 2008-09	Status of recommendation
Information technology		
We recommend that the Ministry of Finance complete its business continuity plan. (2005 Report – Volume 3 - Chapter 5; PAC agreed with recommendation on October 5, 2006)	Finance has a draft business continuity plan. The plan was not tested or approved at March 31, 2009. Finance expects to approve the plan during 2009-10.	**Partially implemented**
We recommend that the Ministry of Finance confirm, in writing, processes and policies that the Information Technology Office (ITO) uses to address its specific information and technology security and disaster recovery requirements, and then identify and set up additional policies unique to the Ministry of Finance as necessary. (2006 Report Volume 3 – Chapter 15; PAC agreed with recommendation on March 13, 2007)	Finance was awaiting finalization of its business continuity plan before it addresses this recommendation. In 2009-10, Finance plans to use its approved plan to guide its work with the ITO.	**Partially implemented**
Human resources		
We recommend the Ministry of Finance complete its human resource plan. (2006 Report Volume 3 – Chapter 15; PAC agreed with recommendation on March 13, 2007)	Finance drafted a new human resource plan that outlines an executive sponsor and a timeline for each activity. The plan was not approved at March 31, 2009.	**Partially implemented**

General Revenue Fund

Background

The General Revenue Fund (GRF) was established under *The Financial Administration Act, 1993*. The Act sets out the scope of the financial activities of the GRF. The Government must deposit into the GRF all public money other than those over which the Legislative Assembly has no power of appropriation and those otherwise specially disposed of by the Legislative Assembly (e.g., revenues of Crown corporations and agencies, special purpose funds, revolving funds). The Government must pay out of the GRF expenses and any loans, advances, or investments as permitted or required by law or by a vote of the Assembly.

Treasury Board is responsible for setting accounting policies and approving the Summary Financial Statements and the General Revenue Fund financial statements prior to their publication in the Public Accounts – Volume 1. Finance (Comptroller's Division) is responsible for the preparation of these financial statements in accordance with the accounting policies set by Treasury Board. In addition, Finance is responsible for setting and using effective controls to permit the accurate 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 2008-09 Volume 1: Main Financial Statements*.[5]

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 Growth and Financial Security Fund in the GRF financial statements.

It is important that governments use GAAP to report their financial results. 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. In addition, 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 financial statements.

Because the Government uses inappropriate accounting policies, the GRF financial statements report net debt and annual surplus inaccurately. If the Government had accounted for all transactions properly, the statements would have recorded net debt of $8.07 billion instead of $3.85 billion at March 31, 2009 and recorded a surplus of $1.62 billion instead of $2.39 billion for the year ended March 31, 2009.

[5] This report is available at http://www.finance.gov.sk.ca/public-accounts/.

Exhibit 2 below sets out, by line item of the affected statement within the GRF financial statements, the amount reported in that statement, the amount that should have been reported in that statement, the difference between these two amounts, and the reason for that difference.

Exhibit 2

Line item on financial statements	Amount reported in financial statements	Amount that should be reported in financial statements	**Difference** Amount reported is: Overstated (too high) Understated (too low)	Reason for difference
Statement of Financial Position				
Total Financial Assets	$3.20 billion	$4.42 billion	$1.22 billion (understated)	Unrecorded “Due from Growth and Financial Security Fund”
Total Liabilities	$7.05 billion	$12.49 billion	$5.44 billion (understated)	Unrecorded pension debt
Net Debt	$3.85 billion	$ 8.07 billion	$4.22 billion (understated)	Net impact of not recording the above amounts
Accumulated Deficit	$971 million	$5.19 billion	$4.22 billion (understated)	Net impact of not recording the above amounts
Statement of Operations				
Total Expense	$10.36 billion	$10.72 billion	$355 million (understated)	Unrecorded pension costs for current year
Transfer to/from the Growth and Financial Security Fund	$419 million	$ ---	$419 million (overstated)	Inappropriately including net transfer as a revenue
Surplus	$2.39 billion	$1.62 billion	$774 million (overstated)	Net impact of above errors on current year surplus

Because the errors significantly impair the usefulness of these financial statements, we have qualified our auditor’s report on the GRF financial statements published in Public Accounts 2008-09 Volume 1. ‘Qualified’ audit reports are not normal and should cause concern for legislators and the public. Our audit report advises readers of the errors in the 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.

Public Employees Benefits Agency

Background

The Public Employees Benefits Agency (PEBA) is part of the Ministry of Finance. PEBA administers various government pension and benefit plans as described in its 2008-09 Annual Report. PEBA serves about 70,000 active and inactive (deferred) members, pensioners, surviving spouses and dependants of these plans.[6]

PEBA recovers its costs to administer the pension and benefit plans by charging the plans based on the costs incurred for each plan. For the year ended March 31, 2009, PEBA incurred $11.4 million in administration costs and recovered those costs from the plans. At March 31, 2009, PEBA held assets of $6.3 million. PEBA's 2008-09 Annual Report includes the PEBA Revolving Fund's audited financial statements.

Need adequate policies for bank reconciliations and journal entries

In our 2009 Report – Volume 1, we recommended that the Public Employees Benefits Agency implement adequate policies governing the preparation and approval of bank reconciliations and journal entries. We reported this matter in regards to six employee benefit plans that PEBA administers for the year ended December 31, 2008. PAC considered this matter in September 2009 and agreed with our recommendation. We continue to make this recommendation.

During the year, we identified instances where PEBA did not promptly review and approve bank reconciliations and journal entries. For example, PEBA did not perform the independent reviews and approvals of bank reconciliations from August 31, 2008 to January 31, 2009 and journal entries of two Plans (i.e., Judges of the Provincial Court Superannuation Plan and Public Service Superannuation Plan) until March 2009.

[6] For facts about PEBA, see http://www.peba.gov.sk.ca/Agency/about_peba.html.

Management told us that it is in the process of amending its bank reconciliation and journal entry policies.

Business continuity plan needed

In our 2008 Report – Volume 3, we recommended that the Public Employees Benefits Agency complete a business continuity plan for the pension and benefit plans it administers. PAC considered this matter in December 2008 and agreed with our recommendation. We continue to make this recommendation.

PEBA provides critical services to the pension and benefit plans it administers. These services include receiving and recording contributions from employers and employees, handling transfers, and providing benefits to members of the plans. PEBA must be able to provide these services even if a disaster disrupts its operations and services. Without an adequate business continuity plan, PEBA may not be able to provide its critical services.

PEBA continues to work on developing a business continuity plan for its critical services. For example, in 2008-09, PEBA further developed documented procedures for backup and recovery of its critical services and tested the effectiveness of some of its back up and recovery procedures. Management told us it expects to complete its business continuity plan later in 2009.

Public Employees Pension Plan

Background

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 day-to-day administration of PEPP.

PEPP's 2008-09 Annual Report included its audited financial statements. These financial statements report contributions of $99 million from employees and $106 million from employers, investment income of

$160 million, and a decrease in market value of the investments of $902 million. For the year, PEPP incurred administrative expenses of $17 million and made transfers or payments out of PEPP of $138 million. At March 31, 2009, PEPP held assets of $3.6 billion.

Complete business continuity plan needed

In our 2006 Report – Volume 3, we recommended that the Public Employees Pension Plan complete its business continuity plan. PAC considered this matter in March 2007 and agreed with our recommendation. We continue to make this 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 pension transfers, and providing termination benefits, death benefits, and retirement benefits to members.

PEPP continues to work on developing a business continuity plan for its critical services. For example, in 2008-09, the Plan further developed documented procedures for backup and recovery of its critical services and tested the effectiveness of some of its backup and recovery procedures. Management told us it expects to complete its business continuity plan later in 2009.

Public Service Superannuation Plan

Background

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.

In 2008-09, the Plan received contributions of $3 million from employees and $109 million from the General Revenue Fund. At March 31, 2009, the Plan held assets of $10 million and had liabilities of $1,883 million.

Complete business continuity plan needed

In our 2007 Report – Volume 3, we recommended that the Public Service Superannuation Board have a complete business continuity plan. PAC considered this matter in April 2008 and agreed with our recommendation. We continue to make this recommendation.

The Board 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.

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. Without an adequate business continuity plan, the Board is at risk of not being able to provide critical services in a timely manner.

The Board continues to work on developing a business continuity plan for its critical services. For example, in 2008-09, the Board further developed documented procedures for backup and recovery of its critical services and tested the effectiveness of some of its back up and recovery procedures. Management told us it expects to complete its business continuity plan later in 2009.

Retired members' pensions

Since our 2001 Spring Report, we have recommended 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 Superannuation (Supplementary Provisions) Act* (Act). Alternatively, the Board should seek changes to the Act. In November 2001, PAC considered this matter and concurred with our recommendation. We continue to make this recommendation.

The Board needs 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 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 that 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.

In March 2008, Bill #9 (Bill) was introduced into the Legislative Assembly of Saskatchewan, to repeal section 27 of the Act. If the Bill were passed, it would allow all retired Government workers under the Plan to return to work without stopping their pensions. The Bill was not passed in the Second Session of the Twenty-Sixth Legislature that ended May 14, 2009.

Legislative requirements for annual reports are inconsistent

To be a good accountability document, an annual report should describe the Board's goals, objectives, how it manages its key risks, what it has done, where it is now, and what it plans to do. This information helps stakeholders assess the performance of an organization.

Section 69(1) of *The Public Service Superannuation Act,* requires the Board to submit a report to the minister showing: all the names of employees who have retired, who have died during the last preceding fiscal year, the position and government agency they worked for, the amount of salary payable and age at retirement or death, the cause of early retirement, and the amount of superannuation allowances granted to each employee. Generally, pension plans do not provide this type of detailed information about their members in their annual reports. This type of detailed and personal information disclosure does not provide useful information to help make the annual report a good public accountability document.

In recent years, for some pension plans, legislative requirements to require disclosure of detailed personal information were removed. We are not aware of any reason for the different legislative requirements for the disclosure of information in the annual report for the Public Service Superannuation Plan versus other Saskatchewan public sector pension plans. We think that the detailed personal disclosure requirements are not useful to users in assessing the Plan's actual performance against its planned goals and objectives and it is inconsistent with other government pension plans' legislative requirements and annual report disclosures. Also, disclosure of the detailed personal information in the Board's annual report may be inconsistent with current privacy legislation.

In March 2008, Bill #9 (Bill) was reintroduced into the Legislative Assembly of Saskatchewan, to supersede section 69 (1) of *The Public Service Superannuation Act*. If the Bill were passed, it would not allow this type of personal information to be disclosed in the Board's annual report. The Bill was not passed in the Second Session of the Twenty-Sixth Legislature that ended on May 14, 2009.

2. We recommend the Public Service Superannuation Board seek changes to its legislation to remove personal information disclosures required in its annual report by Section 69(1) of *The Public Service Superannuation Act*.

Oversight of the Ministry's information technology

Background

In seeking to carry out its responsibilities, Finance makes extensive use of information technology (IT). Finance spent $7.1 million in 2008-09 on

IT. Further, many of its systems are complex or involve management of significant amounts of money.

While Finance works with service providers including the Information Technology Office (ITO) to assist it in its use of IT, Finance remains responsible for its use of IT and for making decisions about how to use IT to achieve its strategic goals and objectives.

If Finance does not appropriately oversee IT, there is risk that its significant investment in IT will not be fully and effectively used to help fulfill its mandate and achieve its goals and objectives.

Audit objective, criteria, and conclusion

The objective of this audit was to assess whether Finance had adequate processes for oversight of its information technology for the 12-month period ending September 30, 2009. Although the Ministry is responsible for the Public Employees Benefit Agency, we did not examine oversight of its information technology in this audit.

To conduct this audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants. To evaluate Finance's processes, we used criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. Finance's management agreed with the criteria (see Exhibit 3).

Exhibit 3 —Audit criteria for oversight of information technology

To have adequate processes for oversight of its information technology (IT), Finance should:

- implement an IT governance framework
- monitor IT performance

We concluded that Finance had adequate processes for oversight of its information technology (IT) for the 12-month period ending September 30, 2009 except Finance needs to:

- **develop an IT risk management plan based on an analysis of IT risks**
- **implement an IT strategic plan**

In the next section, we set out key findings and recommendations related to the criteria. The related criteria are set out in italics under each subheading.

Key findings and recommendations

Implement an IT governance framework

We expected the following: Finance would implement appropriate IT governance structures and align its IT governance structures with overall Ministry governance. Finance would base its IT governance on a comprehensive governance model to provide for unambiguous accountability and to avoid a breakdown in IT oversight. Finance would establish a strategic direction for IT and monitor the results and performance of IT. Finance would understand the risks associated with IT and determine optimal resources to address these risks.

Finance has established an appropriate IT governance structure. Finance uses an IT committee to provide overall strategic direction for IT investment and initiatives and to approve significant IT spending. This committee has senior management representation including the Deputy Minister of Finance. This structure allows for direct communication of IT issues to the ministry's senior management. It uses another IT committee to review IT project proposals and monitor day-to-day IT performance. The presence of senior management on both committees indicates significant attention to IT.

Finance uses templates to help ensure that proposals for IT projects outline risks and priorities and strategically align with key government priorities. Management responsible for the projects receive regular updates. If progress slows on a project, Finance requires system developers to notify responsible staff and/or obtain further approval to proceed. Finance also performs post-project evaluations with those involved in IT projects. These post-project evaluations identify levels of satisfaction with completed projects as well as efficiencies or areas of improvement for future projects.

Although Finance's process for individual projects involves risk identification and identifying whether projects align with government priorities, Finance has not prepared a comprehensive risk analysis for IT or an overall strategic plan for IT. Inadequate risk management could result in inadequate mitigation of IT risks and contribute to malfunctions or security weaknesses.

3. We recommend the Ministry of Finance develop an information technology risk management plan based on an analysis of information technology risks.

Finance is working with ITO to develop a strategic plan for IT including risk identification. As part of the process to develop an IT strategic plan, Finance has completed a project to catalogue all of its IT systems and has drafted expected components of an IT strategic plan. In the interim, without a complete IT strategic plan, Finance has compiled a prioritized list of IT projects to help guide IT investment. On a regular basis, management updates the prioritized list with branch directors.

Without an overall IT strategic plan, there is risk that the maximum benefit from IT investments will not be obtained and that certain IT projects could be initiated when other projects would better serve Finance's strategic objectives. Also, unless Finance links IT initiatives to its strategic business needs, it may miss opportunities to enhance its business operations through IT solutions.

4. We recommend the Ministry of Finance implement a strategic information technology plan that aligns with its strategic business objectives.

Management told us that they are working to complete an IT risk management plan and an IT strategic plan by March 31, 2010.

Monitor IT performance

We expected the following: Finance would measure and evaluate IT performance including problems and tracking of issues. Finance would monitor that progress toward IT goals met its expectations. Finance would have IT status reports that outlined if planned objectives were achieved, deliverables were obtained, performance targets met, and remedial actions undertaken to address problems. Finance would evaluate the appropriateness of remedial action and track problems and issues so that organizational or systemic causes could be addressed.

Finance tracks IT issues at the meetings of the IT committee that oversees its day-to-day IT operations. Finance also monitors project-related IT problems through post-project evaluations and identifies areas of improvement with project team members so that processes for future projects are modified. Managers responsible for IT projects receive IT status reports and hold regular meetings to discuss progress of projects. Project status reports include progress on project deliverables, updated budget and timetable targets, and any changes to the scope of the projects. The reports also describe major accomplishments and challenges encountered and any future challenges expected.

Finance also receives service delivery updates and discusses service issues with its IT service providers. For example, Finance meets monthly with the ITO. Finance and ITO review remedial action and outstanding service issues at their monthly meetings.

The IT committee that is responsible for setting IT strategic direction has not met since June 2008 but did receive a written status update on IT projects at December 2008. We anticipate that this committee would be fully engaged in developing an IT strategic plan and in subsequent monitoring of progress towards strategic objectives (see recommendation above).

Selected references

Auditor General Nova Scotia. (2008). "Government-wide: Governance of information technology operations" (Chapter 5). *Report of the Auditor General—February 2008*. Author: Halifax.

International Organization for Standardization. (2008). ISO/IEC 38500. *Corporate governance of information technology.* Geneva: Author.

The Information Systems Audit and Control Foundation. (2005). *CoBiT-governance, control and audit for information and related technology; 4th Edition*. Rolling Meadows, IL: Author.

Provincial sales tax audit selection–follow-up

Background

Provincial Sales Tax (PST) is a 5% tax on sales of certain purchases. In 2008-09, Finance collected over $1.1 billion in PST revenues.[7]

Finance conducts routine audits of taxpayer records including those that remit Saskatchewan PST to determine if taxes have been correctly collected, reported, and paid. In 2007, we audited the adequacy of Finance's PST audit selection process and in our 2007 Report – Volume 3 (Chapter 9) made the following five recommendations. Finance should:

- document its strategy to assess identified risks that businesses are not complying with PST laws
- set the desired outcomes of the PST selection audit process in measureable terms
- analyze the risks that businesses are not complying with PST laws and rank identified risks according to their potential significance
- direct its audit efforts based on an overall risk analysis of businesses not complying with PST laws
- require its senior management to receive reports on the effectiveness of the PST audit selection process

[7] Ministry of Finance website. www.finance.gov.sk.ca. Accessed: September 18, 2009.

On March 25, 2009, PAC concurred with each of these recommendations.

Even though our audit focused only on the PST audit selection process, Finance, in response to our recommendations, revisited the process it uses to select taxpayer files for audits of Liquor Consumption Tax as well. Overall, at August 31, 2009, Finance has made considerable progress in implementing our recommendations. Management told us that it expects changes underway and planned will move it to full adoption of our recommendations by the fall of 2010.

In the section below, we set out key activities Finance has undertaken or plans to undertake to address our recommendations.

Detailed findings and progress noted

Finance documented its overall strategy and implementation plans in document called "Audit Branch – Implementation of the New Structure Project Charter (August 2009)." Senior management approved this Charter. The project's purpose is to implement a "new branch structure to ensure the effective delivery of the audit program within Revenue Division."

The Charter sets out its objectives, critical success factors, deliverables, project governance, and target dates. Finance expects to implement this plan by the fall of 2010. Once implemented, Finance should have a strategy to assess identified risks that businesses (i.e., taxpayers) are not complying with tax laws.

By August 2009, Finance set two overall desired outcomes for the audit selection process but had not yet set out how it plans to measure these outcomes. Its desired outcomes are:

- ensure that the highest risk files are audited
- reduce the percentage of nil audits and reduce the total and average audit hours spent on nil audits[8]

[8] Progress Report. Ministry of Finance. 2009. A "nil audit" is where there is no difference between the amount of tax assessed per taxpayer and the amount of tax assessed per audit.

Finance summarized and analyzed audit statistics to identify and revise its process to assess and rate risks of taxpayers not complying with the tax laws. By August 2009, Finance identified and grouped major risks into ten risk areas. As set out in the Charter, it plans to identify and document project area populations and the risks associated with the each area.

Finance has numerous steps planned and underway to better direct its audit efforts based on an overall risk analysis of businesses not complying with PST laws. By August 2009, it explored related practices of other governments and changed how its audit function is organized. For example, it created a centralized work unit. The unit will be responsible for selecting high-risk of non-compliant taxpayers for audit to facilitate an efficient consistent risk-based approach to audit selection. Finance is revising its processes to a risk-based, weighted audit selection[9] that promotes compliance with Saskatchewan's tax programs.

So that Audit Branch staff support and clearly understand the revised approach to audit selection, Finance developed a process that incorporates its desired outcomes for audit selection into the career plans of key audit staff (i.e., staff's use of Career Plan Template). Its other plans underway recognize the importance of monitoring and evaluating the use of a risk-based audit approach. Such an approach focuses audit efforts on areas where the risk of non-compliance is the greatest.

Furthermore, it plans to provide senior management with key reports on the effectiveness of the PST audit selection process. Once it has implemented the risk-based approach, it expects to report on the results of the risk-based process as compared to the results from the former selection method.

Overall, at August 31, 2009, while Finance has made considerable progress in implementing our recommendations, the recommendations are not met.

[9] A risk-based, weighted audit selection process assigns numeric values (weights) based on risk factors. Risk factors can include statistics from past audit experience and risks or events specific to the related industry or business. Weighting is than used to help select which businesses for audit.

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

Exhibit 4 provides an update on recommendations previously made by PAC that are not yet implemented and are not discussed earlier in this chapter.

Exhibit 4 – Summary of outstanding PAC recommendations[10]

PAC REPORT YEAR[11]	OUTSTANDING RECOMMENDATION	STATUS
Ministry of Finance (Pension Plans)		
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). We plan to follow up this recommendation during our 2010 audit.
2009	PAC concurs: 4-4 that the Municipal Employees' Pension Commission have a written, tested, and approved disaster recovery plan.	**Partially implemented** (as at December 31, 2008). We plan to follow up this recommendation during our 2009 audit.
2009	PAC concurs: 5-1 that the Saskatchewan Pension Plan approve information technology security policies and procedures that are based on a documented threat and risk assessment.	**Partially implemented** (as at December 31, 2008). We plan to follow up this recommendation during our 2009 audit.
2009	PAC concurs: 5-2 that the Public Employees Benefits Agency explain significant differences between expected and actual results for each specific service standard described in the service agreements.	**Not implemented** (as at December 31, 2007). We plan to follow up this recommendation during our 2009-10 audit.

[10] For the definitions of the key terms used in the table, see Chapter 20 – Standing Committee on Public Accounts.
[11] PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly