CIC Asset Management Inc.

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Main points

CIC Asset Management Inc. has adequately addressed recommendations made in our 2008 Report – Volume 1 about the oversight of its investments including processes to monitor public policy outcomes and key risks for each investment.

At December 2009, it is focusing on the management and divestment of its investments totalling about $200 million.

Introduction

CIC Asset Management Inc. (formerly Investment Saskatchewan Inc., the Corporation) is a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation.[1] Effective April 2009, the Corporation's revised mandate is "to prudently manage and divest of its portfolio of investments."[2]

The Corporation held total assets of $393 million at December 31, 2009 (2008: $565 million) and in 2009, had a net loss of $33 million (2008: net earnings of $691 million).

This chapter sets out the results of our 2009 audit of CIC Asset Management Inc. It also describes management's actions on recommendations we made in our 2007 audit of the Corporation's processes to oversee investments.

Our audit conclusions and findings

KPMG LLP is the appointed auditor of CIC Asset Management Inc. Our Office and the appointed auditor worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors.*[3] The appointed auditor and our Office formed the following opinions.

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

- **CIC Asset Management Inc. had adequate rules and procedures to safeguard public resources**
- **CIC Asset Management Inc. complied with authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- **The financial statements of CIC Asset Management Inc. are reliable**

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[1] On July 1, 2009, Investment Saskatchewan Inc. officially changed its name to CIC Asset Management Inc.
[2] CIC Asset Management Inc. 2009 Annual Report, p. 2.
[3] To view this report, see our website at www.auditor.sk.ca.

In the next section, we provide the results of our follow-up of our previous recommendations.

Processes to oversee investments—a follow-up

Background

At December 31, 2009, CIC Asset Management Inc. (Corporation) held $44 million (2008: $68 million) in companies that it owned and controlled and $173 million (2008: $174 million) in shares and loans of which $49 million (2008: $18 million) are publicly-traded shares. During 2009, it invested $7 million (2008: $21 million), wrote its investments down by $26 million[4] (2008: nil), and sold investments for proceeds of $7 million (2008: $808 million).

Related outstanding recommendations

Chapter 12 of our 2008 Report – Volume 1 includes results of our audit of the adequacy of the Corporation's processes to oversee its investments as at October 31, 2007. It reported that the Corporation had adequate processes except for the matters described in the following three recommendations. The Corporation should:

1. document its requirements, expectations, and planned assessment procedures in sufficient detail to facilitate a comprehensive evaluation of the investment manager's performance
2. document and monitor the expected and actual public policy outcomes for each investment
3. receive sufficient documentation, analysis, and updates of each investment's key risks

At December 31, 2009, the first recommendation was no longer relevant because, during 2009, the Corporation terminated its investment management agreement with its investment manager. As explained in the Significant Transaction Report that the Corporation provided to the Standing Committee on Crown and Central Agencies, the Corporation

[4] The $26 million writedown is comprised of $8 million related to investments in shares and loans and $18 million related to impairment of its investment in Big Sky Farms Inc.

became directly responsible for the management and divestment of the related investments in July 2009.[5]

At December 31, 2009, the Corporation had adequately addressed the last two recommendations. In the following sections, we set out key actions management took to address the recommendations.

Monitor public policy outcomes of investments

In April 2009, in conjunction with the decision to terminate its investment management agreement, the Corporation changed its mandate "to prudently manage and divest of its investments" and its mission "to support an effective divestiture of its investment portfolio that optimizes financial and public policy outcomes."[6] It also decided to limit further investments to companies in which it held shares or loans and make further investments in those companies only if:

- it had previously committed to make further investments
- a further investment was necessary to protect the value of its existing investment

Although its mission refers to optimizing both financial and public policy outcomes, its primary focus when making divestment decisions is to optimize the financial outcome.

Since June 2009, the Board of the Corporation approves all divestment plans and additional investments. Since May 2008, the Corporation has gathered more information, than previously, about the impact of its individual investments on the provincial economy (e.g., number of employees, gross payroll, forecasted annual capital expenditures, and estimated provincial income tax paid). It uses this information to monitor investments and their potential impact on public policy.

Also, each quarter, the Board receives various reports about its investments. These reports include details about each company in which the Corporation has invested. Details include financial and operational status of the company, the nature and extent of the Corporation's

[5] CCA 142-26 dated September 24, 2009, tabled in the Standing Committee on Crown and Central Agencies.
[6] CIC Asset Management Inc. 2009 Annual Report, p. 2.

investment in that company (e.g., for shares: number, type, cost, and market value; for loans: outstanding principal and interest, interest rates, and maturity dates), impact of the company on the provincial economy, and the Corporation's divesting plans. The Corporation seeks the assistance of consultants to assist in preparing divesting plans.

Receive sufficient information about each investment's key risks

Since the quarter ending March 31, 2008, the Board has received adequate quarterly reports about the key risks affecting its individual investments.[7] Information in these reports helps the Board monitor its existing investments and assess the Corporation's divesting plans.

[7] Risks relevant to investing activities typically include liquidity risks (how easily an investment can be sold), financial risks (potential loss in value), and market risk (the effect of supply and demand on the price of the investment). Other risks also arise (e.g., business risks–that is, an organization not meeting its business plan).