

# Enterprise and Innovation programs

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## Main points

Enterprise Saskatchewan complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

Enterprise Saskatchewan administers the Ethanol Fuel Tax Rebate (grant) program on behalf of the Minister of Enterprise. For the year 2010-11, it recorded ethanol fuel tax rebate expenses of \$23.8 million.

Because final information on ethanol sales is not available at year-end, Enterprise Saskatchewan estimates the cost of ethanol fuel tax expenses. We found that Enterprise Saskatchewan overestimated the cost of the program each year since the program began in 2006-07. Enterprise Saskatchewan needs to document its analysis and the assumptions it uses to estimate ethanol fuel tax expenses.

## Introduction

The Minister of Enterprise is responsible for the Small Business Loans Associations program, Ethanol Fuel Tax Rebate (grant) program, and Labour-sponsored Venture Capital Corporations program. These three programs are called the Enterprise and Innovation programs. Since November 1, 2008, the Minister of Enterprise has entered into an Administrative Services Agreement with Enterprise Saskatchewan and the Ministry of Finance to be jointly responsible for the delivery of the Enterprise and Innovation programs on the Minister's behalf.

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

- ◆ for the Small Business Loans Associations program, processing new loans, collecting loan repayments, and monitoring existing loans
- ◆ for the Ethanol Fuel Tax Rebate (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 authorizes and disburses the related payments from the General Revenue Fund (GRF) and records the receipt of cash, if any, into the GRF.

## Financial overview

For the year ended March 31, 2011, small business loans of \$9 million were outstanding. Also in 2010-11, Enterprise Saskatchewan issued \$15.3 million of provincial income tax credits<sup>1</sup> under the LSVCC program. The following is a list of spending of the Enterprise and Innovation programs, by investment program, for the year ending March 31, 2011:

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<sup>1</sup> Provincial income tax credits are foregone revenue – that is, income tax revenue that the Government has decided not to collect if certain conditions are met.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions)	
Small Business Loan Associations	\$ 0.7	\$ 0.3
Ethanol Fuel Tax Rebate <sup>2</sup>	<u>8.8</u>	<u>23.8</u>
Total	<u>\$ 9.5</u>	<u>\$ 24.1</u>

## **Audit conclusion and finding**

**In our opinion, for the year ended March 31, 2011:**

- ◆ **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 noted in this chapter**
  
- ◆ **Enterprise Saskatchewan and the Ministry of Finance complied with the following authorities governing activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

*The Ethanol Fuel Act*

*The Financial Administration Act, 1993*

*The Labour-sponsored Venture Capital Corporations Act*

*The Rural Development Act (shared responsibility with the Minister of Municipal Affairs)*

*The Ethanol Fuel (Grants) Regulations*

*The Labour-sponsored Venture Capital Corporations Regulations*

*The Small Business Loans Association Program Regulations*

**Orders in Council issued pursuant to the above legislation**

### **Better accounting estimation processes needed**

Enterprise Saskatchewan needs to document and refine its process to estimate ethanol fuel tax expenses.

<sup>2</sup> Cabinet approved, through special warrants, additional funding totalling \$14.85 million. Later, the Legislative Assembly approved these amounts through supplementary estimates.

Each year, because final information on ethanol sold is not available at year-end, Enterprise Saskatchewan estimates the cost of the ethanol fuel tax expenses. It is important that management have processes to estimate amounts that reasonably reflect the underlying circumstances and events. It is also important that Enterprise Saskatchewan document the method, key assumptions, and supporting data it uses to make such estimates. Also, a person independent of the estimate's preparation needs to review the reasonableness of the estimate and leave evidence of this review.

At regular intervals, Enterprise Saskatchewan obtained estimates of ethanol fuel sold from each of the five ethanol fuel distributors in Saskatchewan. Management told us that to prepare its estimate of program expenses, Enterprise Saskatchewan adjusted the distributors' estimates based on its analysis and knowledge of the distributors. Enterprise Saskatchewan did not keep documentation of its analysis or document the assumptions it used to adjust the distributors' estimates.

When we compared Enterprise Saskatchewan's estimate to actual amounts paid, we found that since the inception of the program in 2006-07, its estimates of the program consistently exceeded the actual program costs (see Exhibit 1). When we reviewed the distributors' estimates, we found that, in most cases, their estimates more accurately reflected the actual cost of the program. For the year ended March 31, 2011, we estimate that ethanol fuel tax expenses will likely be lower than Enterprise Saskatchewan's estimate of \$23.8 million.

**Exhibit 1**

<b>Fiscal year</b> (in millions)	<b>2009-10</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>
Amount that estimated ethanol tax expenses exceeded actual costs of the program	\$ 1.1	\$ 0.3	\$ 0.9	\$ 0.5

- We recommend that Enterprise Saskatchewan document its analysis and assumptions used to estimate ethanol fuel tax expenses.**

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