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Main points

The Ministry of Finance (Finance) and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. Their financial statements are reliable. Finance and its agencies had adequate rules and procedures to safeguard public resources except it needs to address the items mentioned below.

Finance administers the corporate capital tax program including the resource surcharge. Finance needs to improve the processes it uses to record resource surcharge revenue so that it records the revenue it earns in the proper period.

Finance continues to improve its business continuity plan and is working with the Information Technology Office to obtain better information to help it monitor its information technology systems. It improved its reporting to senior management on its sinking fund and money-market investments. However, Finance had not set market-based benchmarks for its sinking fund investments to help evaluate whether it earned an effective return on these investments. Finance continued to research methods for assessing the performance of these investments.

The three pension plans administered by the Public Employees Benefits Agency (a division of Finance) continue to make progress on completing their business continuity plans but more work remains.

The Public Service Superannuation Board does not know if it complied with the law with respect to stopping pensions of retired members who return to work for the Government. We continue to recommend that the 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 Act. Alternatively, the Board should seek changes to the Act.

Oversight of information technology—a follow up

Finance has made some progress implementing our 2009 recommendations about its processes for oversight of information technology but still has work to do.

Provincial sales tax (PST) audit selection—a follow up

Finance has implemented three of our five 2007 recommendations about its processes to select businesses for provincial sales tax audits and has plans to address the remaining two recommendations.

This chapter also contains a summary of previous recommendations agreed to by the Standing Committee on Public Accounts.

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Introduction

The Ministry of Finance (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:

- 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 central revenue and expense systems including the financial modules of the computerized Multi-informational Database Applications system (MIDAS Financials)
- 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[1]

This chapter sets out the results of our audits of the Ministry of Finance and its agencies for the year ended March 31, 2011. It also includes our follow up of recommendations outstanding from two previous audits.

Special purpose funds and 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[2]) provides the Legislative Assembly with audited financial statements; some also provide an annual report.

[1] Ministry of Finance. (2011). *2010-11 Annual Report*.
[2] This Fund does not prepare financial statements and is not legally required to do so.

Year ended March 31
Growth and Financial Security Fund
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
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

Overview of the Ministry's finances

For the year ended March 31, 2011, Finance administered revenues of $8.0 billion (2010 - $8.0 billion) and spent approximately $0.8 billion (2010 - $0.8 billion) (see Exhibits 1 and 2 for detail). Finance's annual report explains significant differences between actual and budgeted revenues and expenses.[3]

Finance managed gross public debt of $10.5 billion (2010 - $10.7 billion) and investments in sinking funds of $2.4 billion (2010 - $2.7 billion).[4]

[3] Ministry of Finance. *2010-11 Annual Report.*
[4] Government of Saskatchewan. *2010-11 Public Accounts*, Volume 1. p.64.

Exhibit 1—Revenues by type

	Original Estimates	Actual
	(in millions of dollars)	
Taxation	$ 4,851.2	$ 5,123.3
Non-renewable resources–resource surcharge	398.7	360.8
Transfers from Government Entities	747.3	938.3
Other own-source revenue	288.6	386.5
Transfers from the Federal Government	1,164.2	1,148.2
	$ 7,450.0	$ 7,957.1

Exhibit 2—Expenses by program

	Original Estimates	Actual
	(in millions of dollars)	
Public service pension and benefits	$ 264.5	$ 278.4[5]
Revenue	18.0	18.4
Research and development tax credit	18.0	12.0
Provincial comptroller	8.6	8.6
Central management and services	6.6	6.4
Budget analysis	5.0	4.8
Treasury and debt management	2.5	2.0
Personnel policy secretariat	0.5	0.4
Miscellaneous	0.1	0.1
Amortization of capital assets[6]	1.0	1.1
Total expense–Vote 18	324.8	332.3
Debt servicing–Vote 12	435.0	424.3
	$ 759.8	$ 756.6

[5] Finance determines the estimated and actual expenses for public service pension and benefits using the cash basis of accounting instead of the accrual basis. The cash-based amount reported in Finance's annual report was $260.4 million. Using the accrual basis of accounting for the year ended March 31, 2011, the actual expense was $278.4 million (restated to include $18.0 million of unrecorded pension costs).

[6] Amounts do not include capital asset acquisitions of $4.2 million (original estimate) and $853,000 (actual).

Audit conclusion and findings

To form our opinion on the Public Employees Pension Plan, our Office worked with Deloitte & Touche LLP, the Plan's appointed auditor. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.[7]

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

- **Finance and its agencies had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**
- **Finance and its agencies complied with authorities set out in Exhibit 7 governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- **Finance's agencies with a March year-end had reliable financial statements**

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2011, the Government approved, through Orders in Council (special warrants), spending of $633.1 million; the Legislative Assembly later approved these amounts through appropriation acts.

Improved processes to record certain revenues needed

Finance needs to improve processes to record resource surcharge revenue so that it records the revenue it earns in the proper period.

Exhibit 3—Highlights of the Resource Surcharge Program

Finance administers the corporate capital tax program including the resource surcharge. Under *The Corporation Capital Tax Act,* certain resource companies must pay a resource surcharge on the value of their sales of oil, natural gas, potash, uranium, and coal in Saskatchewan.

[7] This report is available on our website at www.auditor.sk.ca/rrd.html.

Each month, these corporations must pay instalments based on their estimates of the current year's surcharge payable. Corporations can choose to make instalment payments on the basis of prior-year results.

Corporations must file an annual corporation capital tax return within six months of the close of their fiscal year and pay any residual amount owed within six months of their fiscal year-end. Most corporations have a December 31 fiscal year-end with a June 30 filing and payment deadline. However, there are other major corporations which have different year-ends (e.g., Mosaic (potash) has a May 31 fiscal year-end with a November 30 filing and payment deadline). Finance has a March 31 year-end.

Finance's accounting policies appropriately expect it to record revenue on an accrual basis, that is, record amounts as revenue as it earns these amounts. This policy helps ensure Finance records the revenue in the proper period (e.g., proper quarter or fiscal year).

Because of the timing for filing annual capital tax returns, to record resource surcharge revenue as it is earned, Finance needs to estimate what it expects these amounts will be. When estimating its resource surcharge revenues, we expected that Finance would set out the key assumptions that it uses it in its estimation process; identify and keep track of key information to assess the ongoing relevance of its assumptions; identify and take into account the effect of events, transactions, and changes in circumstances that would affect those assumptions and in turn its estimate; and record revenues based on its best estimate.

For the year ended March 31, 2011, Finance recorded $360.8 million of resource surcharge revenues using taxpayers' estimates as reflected in their monthly instalments and adjustments made in the year resulting from annual returns (e.g., adjustments resulting from taxpayers filing 2009 fiscal year returns after April 1, 2010). This amount includes Finance's estimate of resource surcharge revenue for taxpayers that had not made complete instalment payments.

However, the Ministry did not attempt to estimate or record the difference between the amount of taxpayer instalments and amounts it expected to receive or pay based on the unfiled annual tax returns. Management told us that it assumed that taxpayer instalments best reflected the revenues earned for the year and that adjustments remained relatively consistent from year to year.

We found that Finance did not take steps to confirm that these instalments were a reasonable basis for estimating and recording resource surcharge revenue. For example, at each quarter and at year-end, Finance did not determine whether assumptions that corporations used to make their initial estimates remained valid (that is, the level of expected sales remained consistent for the related period). At July 2011, the estimated differences between instalment payments received (i.e., revenue recognized in 2010-11) and amounts determined on 2010 corporate tax returns are set out in Exhibit 4 below.[8]

Exhibit 4—Extent of differences identified between instalments received and 2010 corporate tax returns

Sector	Overpayment (underpayment)
Potash	($38,759,969)
Oil & Gas	$31,214,468
Uranium	$1,764,484
Coal	$73,250

During 2010-11, Finance did not track, on an overall basis, the nature and extent of adjustments to resource surcharge revenues based on actual amounts reflected in annual capital tax returns.

Tracking and monitoring adjustments would help Finance determine the accuracy of estimates of resource corporations and help it to better estimate the amount of resource surcharge revenue earned for each quarter and for the year. Without adequate estimation processes, Finance may record significant revenues in the incorrect quarter or fiscal year.

1. **We recommend that the Ministry of Finance establish a process to better estimate resource surcharge revenue earned during each quarter and record this estimate each quarter.**

[8] Finance did not prepare comparative information for the 2009 corporation capital tax returns.

Current human resources service agreement needed

Finance did not maintain a current service agreement with Public Service Commission (PSC) for key human resources activities other than payroll services.

PSC provides human resources services to Finance and other Ministries. Finance spends about $23 million each year on salaries and benefits and had a staff complement of 315 full-time equivalents[9] at March 31, 2011.[10]

While Finance had a service agreement in effect for payroll services that PSC provides, its human resources service agreement expired on March 31, 2010. During 2010-11, the PSC changed how it delivered some of its human resource services (e.g., in May 2010, PSC delegated staffing for out-of-scope positions to ministries). At July 31 2011, Finance had not extended or renewed its agreement with PSC.

Lack of maintaining a current, signed service agreement increases the risk that Finance and PSC may not have a common understanding of the roles and responsibilities of each party and that PSC's human resources services may not address Finance's needs.

2. We recommend that the Ministry of Finance establish a current service agreement with the Public Service Commission for the provision of human resources services.

Implementation of past recommendations needed

In Exhibit 5, we set out our past recommendations, actions the Ministry took during 2010-11, and the status of these recommendations at March 31, 2011.

[9] Full-time equivalent is a measure of paid hours to employees divided by a standard number of hours a full-time employee would be paid in a year.
[10] Ministry of Finance. *2010-11 Annual Report.* (p. 7). Amount reported does not include staff of the Public Employees Benefits Agency Revolving Fund.

Exhibit 5—Status of past recommendations

Past Recommendation (initial report)	Public Accounts Committee (PAC)	Actions Finance took in 2010-11	Status of recommendation at March 31, 2011
Information technology			
We recommended that the Ministry of Finance confirm, in writing, processes and policies that the Information Technology Office (ITO) uses to address its specific information 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 this recommendation on March 13, 2007.	Finance finalized its business continuity plan (BCP[11]) in 2009-10 and advised ITO of its disaster recovery and availability requirements. Finance did not receive confirmation from ITO that ITO can provide disaster recovery and availability that would meet the requirements set out in Finance's BCP. Finance and ITO are developing a new service level agreement which will address disaster recovery requirements.	**Partially implemented** – we continue to make this recommendation.
We recommended that the Ministry of Finance require the Information Technology Office (ITO) to give it, each year, information on the adequacy of ITO's controls for keeping Finance's computer systems and data secure and available. (2010 Report – Volume 2 – Chapter 8)	PAC agreed with this recommendation on May 18, 2011.	Finance did not receive information from the ITO on the adequacy of controls at the ITO. Finance needs to know of ITO's control weaknesses (if any) so that it can assess the impact on its computer systems and data and take the necessary steps to mitigate the impact. Finance received regular security reports and followed up any security breaches identified.	**Not implemented** – we continue to make this recommendation.
We recommended that the Ministry of Finance follow its processes for removing unneeded user access to its information technology systems and data promptly.	PAC agreed with this recommendation on May 18, 2011.	In 2010-11 Finance began receiving a biweekly report that identifies inactive system users. Finance used this report to help identify and remove employees who no longer require system access. However, during 2010-11,	**Partially implemented** – we continue to make this recommendation.

[11] **Business Continuity Plan** - A plan by an organization to respond to unforeseen incidents, accidents, and disasters that could affect the normal operations of the organization's critical operations or functions.

Past Recommendation (initial report)	Public Accounts Committee (PAC)	Actions Finance took in 2010-11	Status of recommendation at March 31, 2011
(2010 Report – Volume 2 – Chapter 8)		there were still instances where Finance did not request timely removal of unneeded user access to its IT systems.	
Treasury management			
We recommended that 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 these recommendations on September 1, 2009.	Finance has two main types of investments: money market (short term) and sinking fund (long term). For money market investments: Finance prepared a quarterly report for senior management that communicates detailed information regarding market-based investment expectations and evaluation of investment performance. For sinking fund investments: Finance had not set market-based benchmarks for the sinking fund investments to enable assessing whether it earned an effective return on these investments. Finance continued to research relevant basis for assessing the performance of these investments.	**For money market investments – implemented.** **For sinking fund investments - Not implemented** – we continue to make this recommendation.
We recommended the Ministry of Finance monitor and report publicly on the performance of the investments in its sinking funds. (2009 Report – Volume 1 – Chapter 5)		As noted above, Finance continued to research relevant basis for measuring and in turn reporting the performance of the sinking funds publicly.	**Not implemented** – we continue to make this recommendation.

Past Recommendation (initial report)	Public Accounts Committee (PAC)	Actions Finance took in 2010-11	Status of recommendation at March 31, 2011
We recommended 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)		Finance identified opportunities to improve documentation, and plans to complete the following in 2011-12: - implement a debt system to centralize information associated with debt issues; and - document procedures relating to Saskatchewan Savings Bonds.	**Partially implemented** – we continue to make this recommendation.

Public Employees Benefits Agency and pension plans it administers

The Public Employees Benefits Agency (PEBA) is part of the Ministry of Finance. PEBA administers government pension and benefit plans. This includes the Public Employees Pension Plan (PEPP), Public Service Superannuation Plan (PSSP) and Municipal Employees' Pension Plan (MEPP). PEBA serves about 79,000 active and inactive (deferred) members, pensioners, and surviving spouses and dependents of these plans.

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, 2011, PEBA incurred $14 million in administration costs and recovered those costs from the plans. At March 31, 2011, PEBA held assets of $2 million. PEBA's 2010-11 Annual Report includes the PEBA Revolving Fund's audited financial statements.

The Public Employees Pension Board is responsible for *The Public Employees Pension Plan Act*. The Board manages PEPP, a defined contribution pension plan. The Board's primary objective is to provide retirement benefits to PEPP members in accordance with the law.

PEPP's 2010-11 Annual Report included its audited financial statements. These financial statements report contributions of $108.6 million from employees and $122.1 million from employers, investment income of

$139.8 million, and an increase in market value of the investments of $328.6 million. For the year, PEPP incurred administrative expenses of $19.7 million and made transfers or payments out of PEPP of $165.3 million. At March 31, 2011, PEPP held assets of $4.9 billion.

PSSP is responsible for the administration of *The Public Service Superannuation Act* and other relevant legislation.

The Board governs PSSP, which consists of the Public Service Superannuation Fund, the Anti-Tuberculosis League Employees Superannuation Fund, and the Saskatchewan Transportation Company Employees Superannuation Fund. The primary objective of PSSP is to provide superannuation allowances to employees who retire and to the dependents of deceased superannuates and employees, in accordance with governing legislation.

In 2010-11, PSSP received contributions of $1.7 million from employees and $119 million from the General Revenue Fund. At March 31, 2011, PSSP held assets of $7.2 million and had liabilities of $1,939 million.

Business continuity plans needed

We recommended that PEBA complete a business continuity plan for the pension and benefit plans it administers. *(2008 Report – Volume 3)*

In December 2008, PAC agreed with our recommendation.

The critical services that PEBA and these Plans provide include receiving and recording contributions from employers and employees, handling transfers, and providing termination benefits, death benefits, and retirement benefits to members. PEBA and each of these plans must be able to provide these services even if a disaster disrupts its operations and services. Without an adequate business continuity plan, they may not be able to provide their critical services.

Exhibit 6 sets out the actions that PEBA and each Plan took in 2010-11 towards completing their business continuity plans.

Exhibit 6—Plans Actions taken in 2010-11

Agency	Actions taken in 2010-11
PEBA	PEBA continued to work on a business continuity plan for its critical services. It had developed a plan, but had not tested it. Until PEBA tests its plan, there is a risk that the plan will not meet its business continuity needs.
PEPP	PEPP developed a business continuity plan for its critical services in 2009-10. PEPP needs to test the effectiveness of the business continuity plan. Management told us it expects to test its business continuity plan in 2012-13.
PSSB	The Board completed developing a business continuity plan for its critical services in 2009-10. The Board needs to test the effectiveness of the business continuity plan. Management told us it expects to test its business continuity plan in 2012-13.

Status – We continue to make this recommendation.

Retired members' pensions

We recommended that the Public Service Superannuation Board establish rules and procedures to ensure that all retired members who are receiving a pension and who 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. *(2001 Spring Report)*

In November 2001, PAC agreed with this recommendation.

The Board of PSSP needs information about retired plan members 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 PSSP 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. The Act requires PSSP's 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 PSSP's Board to stop the pension of a retired member that the Government re-hires as a permanent employee when that member starts work.

However, PSSP's Board did not have rules and procedures to know if retired members are working for the Government. It relied on retired plan members notifying it upon re-employment with the Government. As a result, PSSP's Board could not ensure that all pensions it paid comply with the law. Accordingly, we cannot determine if PSSP's Board complied with section 27 of the Act.

Status – We continue to make this recommendation.

Exhibit 7—Legislation

Finance: *The Government Organization Act* *The Ministry of Finance Regulations, 2007* *The Corporation Capital Tax Act* *The Corporation Capital Tax Regulations, 1984* *The Federal-Provincial Agreements Act* *The Financial Administration Act, 1993* *The Fire Prevention Act* *The Fire Insurance Fees and Reporting Regulations* *The Fuel Tax Act, 2000* *The Fuel Tax Regulations, 2000* *The Growth and Financial Security Act* *The Income Tax Act, 2000* *The Insurance Premiums Tax Act* *The Liquor Consumption Tax Act* *The Motor Vehicle Insurance Premiums Tax Act* *The Public Service Act* *The Provincial Sales Tax Act* *The Provincial Sales Tax Regulations* *The Revenue and Financial Services Act* *The Revenue Collection Administration Regulations* *The Tobacco Tax Act, 1998* *The Tobacco Tax Regulations, 1998* Orders in Council issued pursuant to the above legislation	Judges of the Provincial Court Superannuation Plan: *The Financial Administration Act, 1993,* section 64 *The Pension Benefits Standards Regulations (Canada), 1985* (Schedule III) *The Provincial Court Act, 1998* *The Provincial Court Compensation Regulations* *The Pension Benefits Act, 1992* *The Pension Benefits Regulations, 1993* *The Income Tax Act (Canada)* sections 147.1, 147.2, and 147.3 *The Income Tax Regulations (Canada): 8501-8504, 8512, 8514, 8520* *The Superannuation (Supplementary Provisions) Act,* section 36.2 Orders in Council issued pursuant to the above legislation Public Employees Benefits Agency Revolving Fund *The Financial Administration Act, 1993,* section 64 *Financial Administration Manual* Orders in Council issued pursuant to the above legislation

Public Employees Pension Plan: *The Public Employees Pension Plan Act, 1996* *The Public Employees Pension Plan Regulations* *The Superannuation (Supplementary Provisions) Act* *The Pension Benefits Act, 1992* *The Pension Benefits Regulations, 1993* *The Pension Benefits Standards Regulations, 1985 (Canada)* *The Income Tax Act (Canada)* sections 147.1-147.3 *The Income Tax Regulations (Canada)* sections: 8501-8505, 8512, 8514 Orders in Council issued pursuant to the above legislation	Public Service Superannuation Plan: *The Public Service Superannuation Act* *The Superannuation (Supplementary Provisions) Act* *The Superannuation Acts Uniform Regulations* *The Pension Benefits Standards Regulations (Canada)*, 1985 (Schedule III) *The Pension Benefits Act, 1992* *The Pension Benefits Regulations, 1993*, section 38 *The Financial Administration Act, 1993*, section 64 *The Income Tax Act (Canada)* sections 147.1, 147.2, and 147.3 *The Income Tax Act Regulations (Canada)* sections 8501 – 8504; 8512; 8514; 8520 Orders in Council issued pursuant to the above legislation
Saskatchewan Pension Annuity Fund: *The Saskatchewan Pension Annuity Fund Act* *The Saskatchewan Pension Annuity Fund Regulations* *The Pension Benefits Act, 1992* *The Pension Benefits Regulations, 1993* *The Pension Benefits Standards Regulations (Canada), 1985* *The Financial Administration Act, 1993* Orders in Council issued pursuant to the above legislation	Saskatchewan Watershed Authority Retirement Allowance Plan: *The Financial Administration Act, 1993*, section 64 & 65 Saskatchewan Watershed Authority Retirement Allowance Plan Document Orders in Council issued pursuant to the above legislation

Oversight of information technology—a follow up

Background

In carrying out its mandate, the Ministry makes extensive use of information technology (IT). In 2010-11, Finance spent $7.4 million on information technology and the Ministry estimates expenditures of $7.4 million for 2011-12.[12]

Finance works with service providers, including the Information Technology Office (ITO) in using IT. Nevertheless, Finance is ultimately responsible for its use of IT, and thus must maintain effective oversight.

[12] Source: Ministry of Finance.

In 2009, we assessed the Ministry's processes for oversight of information technology. Our 2009 Report – Volume 3, Chapter 7 (pp. 136-141) concluded that Finance had adequate processes for oversight of its information technology (IT) for the 12-month period ending September 30, 2009 except Finance needed to:

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

On June 25, 2010, PAC agreed with our recommendations.

The following section sets out the recommendations (in italics), Finance's actions to August 31, 2011, and the status of the recommendations. We found that Finance has made progress in implementing our recommendations and has some work yet to do. Management told us that it plans to have the recommendations fully implemented within 2011.

IT risk analysis and risk management plan

We recommended the Ministry of Finance develop an information technology risk management plan based on an analysis of information technology risks. *(2009 Report – Volume 3)*

Since 2009, Finance has identified and assessed risks relating to the critical applications that are required to keep the Ministry's business processes operational. The risk assessment aligned with the Ministry's draft IT strategic plan (discussed further in the next section).

The risk assessment listed critical applications and provided a description of the applications, the business functions the applications provide, an assessment of related risks, and a risk indicator (of low, medium or high).

The assessment identified risks related to software expiry, support expiry, dated and obsolete technology, necessary upgrades, lack of trained support, and ability to meet business requirements. Assessments had been completed for 14 of 17 critical systems identified.

Finance had also assessed IT risks in its business continuity planning.

Finance had not yet used the risk assessment to complete a risk management plan. Management told us that it plans to draft an IT risk management plan within 2011.

Status – We continue to make this recommendation.

IT strategic plan

We recommended the Ministry of Finance implement a strategic information technology plan that aligns with its strategic business objectives. *(2009 Report – Volume 3)*

Finance, in collaboration with the ITO, has developed a draft IT strategic plan. Finance has planned IT initiatives for all divisions in the Ministry. The plan aligned IT priorities and strategies to the overall mission and mandate of the Ministry.

Management told us it plans to complete the IT strategic plan within 2011.

Status – We continue to make this recommendation.

Provincial sales tax (PST) audit selection—a follow up

Under *The Provincial Sales Tax Act,* the Ministry of Finance (Finance) collects a five percent provincial sales tax (PST) on certain consumer purchases. In 2010-11, Finance collected approximately $1.2 billion in PST revenues.[13] Finance conducts routine audits of taxpayer records to promote compliance with PST laws[14] and to determine if taxpayers have reported and paid the correct amount of taxes.

Our 2007 Report – Volume 3 (Chapter 9) reported that Finance had adequate processes to select businesses for PST audit with some exceptions. We made five recommendations. On March 25, 2009, PAC agreed with our recommendations. Our 2009 Report – Volume 3 (Chapter 7) reported that while Finance made considerable progress and planned for further progress, the recommendations were not met.

[13] Ministry of Finance. *2010-11 Annual Report* (www.finance.gov.sk.ca/PlanningAndReporting/2010-11/201011FinanceAnnualReport.pdf).
[14] *The Provincial Sales Tax Act* and *The Provincial Sales Tax Regulations.*

At September 16, 2011, we found that Finance has now implemented three of the five recommendations and partially implemented the remaining two recommendations. The following section sets out the five recommendations (in italics) and Finance's actions up to September 16, 2011.

Set desired outcomes

We recommended that the Ministry of Finance set the desired outcomes of the PST audit selection process in measureable terms. *(2007 Report – Volume 3)*

Finance's audit branch prepared a 2011-12 strategic plan that formed part of Finance's 2011-12 Performance Plan. Finance's performance plan included the following two goals that specifically relate to PST audit selection and related action plans:

1. *Optimize revenue to the Province through fair policies and systems to ensure greater voluntary payment of and compliance with taxes owing to the Province*
2. *Continue to work on a tax audit selection process and the allocation of audit resources to the highest risk areas*[15]

Finance identified several potential performance measures it could use to assess its progress towards achievement of the above goals. Some of these performance measures were output measures (e.g., amount of audit revenues assessed, cost of audits); while others were outcome measures (e.g., overall rate of non-compliance). Finance calls the overall rate of non-compliance the "tax gap." It collected baseline data for these draft performance measures. At September 2011, Finance had not decided which performance measures to use.

Status – We continue to make this recommendation.

[15] Ministry of Finance. *2011-12 Performance Plan* (www.finance.gov.sk.ca./PlanningAndReporting/2011-12/FinancePlan1112.pdf).

Analyze the risks of non-compliance

We recommended that the Ministry of Finance analyze the risks that businesses are not complying with PST laws and rank identified risks according to their potential significance. *(2007 Report – Volume 3)*

Since 2009, Finance has identified the key risk areas related to PST and ranked each of these areas. Also, it has established and applied initial weighting criteria (e.g., commencement date of business, sales, industry code, previous assessments) to all businesses currently remitting PST.

For businesses identified as posing a higher risk of non-compliance with PST laws, Finance required audit staff to prepare an audit selection analysis. This selection analysis set out additional information such as expected revenue from the audit and required audit resources.

Finance then calculated an overall weighting for each business based on the initial weighting criteria, the selection analysis, information from the Canada Revenue Agency, and other information (such as concerns raised by consumers). Using the overall weighting, it ranked businesses and assigned them to a particular audit group.

Finance revised the initial weighting criteria as new information became available. The weighting criteria was updated monthly to incorporate any new information.

Finance set a minimum expected revenue recovery threshold that it used to determine whether or not it would be economical or practicable to perform audit activity. Finance communicated this threshold to staff and used the threshold when selecting businesses for audit.

Status – Finance has implemented this recommendation.

Document strategy to address risk

We recommended that the Ministry of Finance document its audit strategy to address identified risks that businesses are not complying with PST laws. *(2007 Report – Volume 3)*

As noted above, the strategic plan of Finance's audit branch included its strategy to address identified risks and it completed an audit selection analysis for each business selected for audit. The selection analysis documented risks of each business not complying with the PST laws. Finance tailored its audit for each business to address risks identified in its selection analysis.

Status – Finance has implemented this recommendation.

Direct audit effort towards risk

We recommended that the Ministry of Finance direct its audit efforts based on an overall risk analysis of businesses not complying with PST laws. *(2007 Report – Volume 3)*

Finance maintained an audit manual that set out its procedures for conducting audits. As noted above, Finance used the weighting process to allocate its audit staff to audits of businesses with the highest risk of non-compliance. In addition, to foster greater voluntary payment and compliance, Finance randomly selected for audit businesses with lower risks of non-compliance.

Status – Finance has implemented this recommendation.

Report on effectiveness of audit selection process

We recommended that the Ministry of Finance require its senior management to receive reports on the effectiveness of the PST audit selection process. *(2007 Report – Volume 3)*

Finance requested staff to provide input on the effectiveness of the audit selection process. For example, audit managers met quarterly to discuss better ways to identify risks and possible process improvements. Reports prepared for each audit compared expected results for each audit (e.g., expected risks, expected audit revenues, expected audit hours) to actual audit results. Finance used this information to evaluate whether its weighting criteria effectively selected for audit those businesses with the highest risk of non-compliance.

However, as noted previously, Finance had not yet decided which performance measures to use for reporting to senior management on the overall effectiveness of its PST audit selection process. Also, it had not set performance targets for these measures.

Status – We continue to make this recommendation.

Status of previous recommendations of the Standing Committee on Public Accounts

The following exhibit provides an update on recommendations agreed to by PAC that are not yet implemented and are not discussed earlier in this chapter.[16] Our intent is to follow up outstanding recommendations in upcoming reports.

PAC REPORT YEAR[17]	OUTSTANDING RECOMMENDATION	STATUS
Public Employees' Benefits Agency – IT security (2010 Report – Volume 2)		
2011	8-5 that the Public Employees Benefits Agency periodically review the completeness of its information technology policies.	**Not implemented** (as at March 31, 2010). We plan to follow up in 2012.
2011	8-6 that the Public Employees Benefits Agency periodically test the effectiveness of its information technology security.	**Not implemented** (as at March 31, 2010). We plan to follow up in 2012.
2011	8-7 that the Public Employees Benefits Agency comply with its security policy of monitoring software developers' access to its information systems and data.	**Not implemented** (as at March 31, 2010). We plan to follow up in 2012.
2011	8-8 that the Public Employees Benefits Agency implement and test its disaster recovery plan.	**Partially implemented** (as at March 31, 2011).
2011	8-9 that the Public Employees Benefits Agency implement its approved policies and procedures for making changes to its information technology infrastructure.	**Not implemented** (as at March 31, 2010). We plan to follow up in 2012.

[16] For definitions of the Key Terms used in the exhibit, see Chapter 27 – Standing Committee on Public Accounts.
[17] "PAC Report Year" refers to the year that PAC first made the recommendations in its report to the Legislative Assembly.

PAC REPORT YEAR[17]	OUTSTANDING RECOMMENDATION	STATUS
Municipal Employees' Pension Commission (2007 Report – Volume 1)		
2009	4-4 that the Municipal Employees' Pension Commission have a written, tested, and approved disaster recovery plan.	**Partially implemented** (as at December 31, 2010). We plan to follow up in conjunction with our annual audit.

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