

Financial reporting— Public financial reporting— the need to change

10

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Main points

This chapter provides information to legislators and citizens about the nature of financial reporting in Saskatchewan. It explains why public reporting on a government's financial results should be based on all agencies that a government controls. This information is only available in a government's summary financial statements. Only summary financial statements should be used to assess a government's performance in managing Saskatchewan's financial affairs and public resources.

The financial statements of the General Revenue Fund contain significant errors. Unfortunately, Saskatchewan governments have used these statements as their main way to explain financial results to the people of Saskatchewan for many years. The financial statements of the General Revenue Fund are not complete and do not reflect how governments use all resources over which they have control. It is reasonable for a government to use the GRF to manage a part of the government's operations that are included in the Summary Financial Statements, but the appropriate statements to use when communicating to the public are the Summary Financial Statements.

The bottom line (annual surplus/deficit) of the General Revenue Fund is controllable and can generally reflect the financial results a government desires. This is because the financial value of transfers between Crown agencies and the transfers from "rainy day funds" can be controlled and can affect the bottom line. The Summary Financial Statements are not subject to the same potential for accounting adjustments as they eliminate the financial impact of a government doing business with itself.

Other provincial governments and the Federal Government are using summary financial statements to publicly communicate financial information. It is time for Saskatchewan to focus public reporting on financial results using these statements.

Moving to the use of summary financial statements as the primary means of public communications will be a significant change for Saskatchewan governments. It will likely create the possibility that less predictable results may need to be explained.

Chapter 10 – Financial reporting—Public financial reporting—the need to change

We believe that the first government that focuses on public reporting using summary financial statements will be one that is confident of its performance, and that is willing to make concrete changes to advance appropriate, open, and understandable financial reporting to the people of Saskatchewan. We encourage Saskatchewan to make this move.

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Introduction

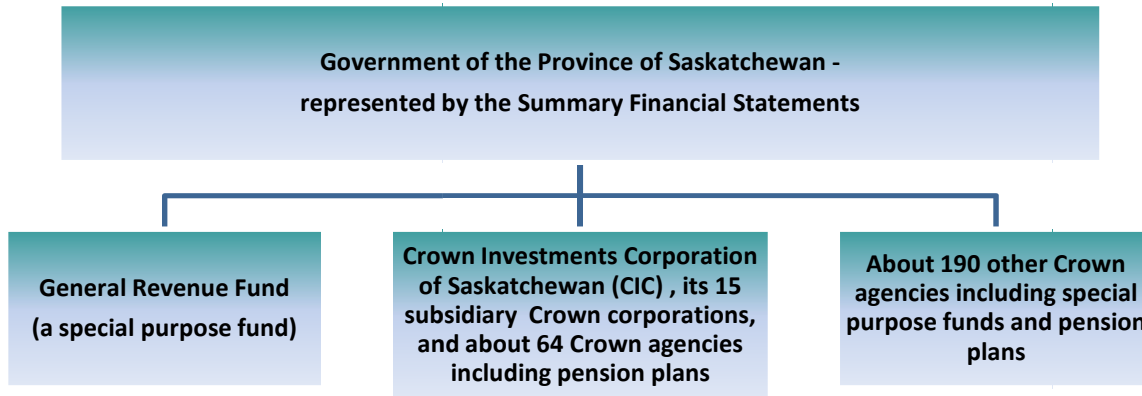
This chapter provides information to legislators and citizens about the nature of financial reporting in Saskatchewan. It explains why public reporting on a government's financial results should be based on the Summary Financial Statements.

This Office has made several recommendations over the years encouraging governments to report publicly focusing on the Summary Financial Statements (SFS) instead of the General Revenue Fund (GRF) financial statements. Making this public reporting change would result in Saskatchewan being consistent with other Canadian provincial governments and the Federal Government. Saskatchewan already produces Summary Financial Statements and in fact, for the year ending March 31, 2011, was the first province in Canada to issue them. We believe a publicly reporting focus on them is appropriate to ensure government is accountable for all operations that it controls.

Financial reporting structure of the Public Accounts of Saskatchewan

The Public Accounts of Saskatchewan are key accountability reports required by law (i.e., *The Financial Administration Act, 1993*). Public Accounts includes the annual financial statements for the Government of the Province of Saskatchewan (commonly referred to as the Summary Financial Statements) and other information as required by a subcommittee of Cabinet (i.e., Treasury Board). Legislation also requires financial statements on the General Revenue Fund to be prepared. The Public Accounts provides an important link in an essential chain of public accountability. They are the principal means by which the Government reports on its stewardship of public money to the Legislative Assembly and to the people of Saskatchewan.

Chart 1—The composition of the Government of Saskatchewan



In Saskatchewan, the Public Accounts are represented by two distinct sets of financial statements.

- ◆ **Summary Financial Statements.** These statements provide audited information on the aggregate financial affairs and resources for which the Government is responsible (about 270 agencies including the General Revenue Fund, Crown corporations, and other Crown agencies – see Chart 1). These statements are also the appropriate statements to use when comparing the operating results and the financial position of Saskatchewan to other provincial governments and the Federal Government.
- ◆ **General Revenue Fund financial statements.** These statements compare spending of ministries to that authorized by the Appropriation Acts and other statutory spending authorities (Estimates).¹ They provide audited information on spending of ministries and revenues (primarily from taxes, non-renewable resources, and transfers from the Federal Government). As explained later in this chapter, these statements contain significant errors and do not include results of all agencies controlled by the Government.

¹ Various acts give the Government ongoing spending authority. For these amounts, the Government is not required to seek annual legislative authority through Appropriation Acts. For example, *The Financial Administration Act, 1993* gives the Ministry of Finance the ongoing authority to pay debt servicing costs (e.g., interest, fees and commissions). These amounts are called statutory appropriations.

Saskatchewan publishes Public Accounts in two volumes.

Public Accounts - Volume 1 (Main Financial Statements) contains:

- ◆ Financial Statement Discussion and Analysis for both the General Revenue Fund (GRF) and Summary Financial Statements
- ◆ General Revenue Fund Financial Statements (audited)
- ◆ Summary Financial Statements (audited)
- ◆ Unaudited Supplementary Information on the Growth and Financial Security Fund, GRF issued debentures, and a glossary of terms

Public Accounts - Volume 2 (Details of Revenue and Expenses) contains unaudited:

- ◆ Details of GRF Revenue and Expense including lists of salaries and benefits, transfers, payments to suppliers
- ◆ GRF transfers to the Growth and Financial Security Fund
- ◆ GRF Details of Capital Asset Acquisitions
- ◆ GRF Supplier Summary
- ◆ Various other information including Summary of Pension Plan and Trust Fund Balances, Statement of Remission of Taxes and Fees, and the Road-use Fuel Tax Accountability Report

Also, other key accountability documents that the Government publishes include:

- ◆ a compendium of audited financial statements of various Crown agencies accountable to Treasury Board (a subcommittee of cabinet)²
- ◆ the audited financial statements of Crown Investments Corporation of Saskatchewan (CIC) and subsidiary Crown corporations (e.g., SaskPower, SaskTel) accountable to the Board of CIC (a subcommittee of cabinet)³

² These are available on the internet at <http://www.finance.gov.sk.ca/public-accounts>. The payee disclosure reports of these agencies are tabled in the Legislative Assembly in conjunction with their annual reports and/or audited financial statements.

³ The website of Crown Investments Corporation of Saskatchewan provides web links to the audited financial statements of each of its subsidiary crowns (<http://www.cicorp.sk.ca/>) and to the payee disclosure report for the CIC sector (<http://www.cicorp.sk.ca/publications>). The audited financial statements of the other related CIC crown agencies are tabled in the Legislative Assembly.

Audit of the Public Accounts

Every year, our Office audits and issues audit opinions on the two sets of financial statements included in Public Accounts – Volume 1:

- ◆ the Summary Financial Statements
- ◆ the General Revenue Fund

Ever since the Summary Financial Statements were first prepared in 1992, our Office has issued a clean opinion, with no audit qualifications, on the Summary Financial Statements (see Exhibit 1). These financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Summary Financial Statements provide a complete, fair, and accurate representation of the Government's financial position and the results of its operations.

For over sixteen years, our Office has issued a qualified audit opinion on the GRF financial statements (see information under headings of “Basis for Qualified Opinion”, “Qualified Opinion”, and “Usefulness of these Financial Statements is Limited” in Exhibit 2). These statements are not prepared in accordance with GAAP.

Exhibit 1—Auditor’s Report on 2010-11 Summary Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Government of Saskatchewan, which comprise the summary statement of financial position as at March 31, 2011, and the summary statements of operations, accumulated surplus, change in net debt, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Government of Saskatchewan as at March 31, 2011, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Regina, Saskatchewan
June 16, 2011

Bonnie Lysyk, MBA, CA•CIA
Provincial Auditor

Exhibit 2—Auditor’s Report on 2010-11 General Revenue Fund Financial Statements

INDEPENDENT AUDITOR’S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the General Revenue Fund, which comprise the statement of financial position as at March 31, 2011, and the statements of operations, accumulated deficit, change in net debt, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting principles for Treasury Board’s approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion

1. The Government through the General Revenue Fund is responsible for the liabilities of several pension plans and a disability benefit plan. Notes 1 and 4 state that the pension liabilities and a disability benefit liability are not recorded in these financial statements. Canadian public sector accounting principles require that the pension and disability benefit liabilities be recorded in the financial statements. Had the pension and disability benefit liabilities been recorded, liabilities and accumulated deficit would increase by \$6,024 million (2010 - \$5,783 million) as at March 31, 2011 and, for the year, expenses would increase by \$240 million (2010 - \$341 million), and surplus would decrease by the same amounts.
2. The Government records transactions between the General Revenue Fund and the Growth and Financial Security Fund (GFSF) as revenue or expense of the General Revenue Fund. The substance of the transactions between the General Revenue Fund and the GFSF is that the amounts the General Revenue Fund owes the GFSF must be repaid by the GFSF to the General Revenue Fund. Canadian public sector accounting principles do not allow the General Revenue Fund to record changes in the amount due to the GFSF as revenue or expense of the General Revenue Fund.

The financial statements show an expense (as Transfer to the GFSF) of \$48 million (2010 - net Transfer from the GFSF of \$257 million). It is not appropriate to record an expense because the GFSF must return all amounts due to the General Revenue Fund. Likewise, it is not appropriate to record revenue for it is only the amount the GFSF has returned to the General Revenue Fund in the year. Instead of recording an expense or revenue, the financial statements should record an asset equal to the amount it owed or paid to the GFSF. Had the Government properly recorded the transactions, Total Financial Assets would increase by \$1,006 million (2010 - \$958 million) and accumulated deficit would decrease by the same amount as at March 31, 2011 and, Surplus for the year would increase by \$48 million (2010 - decrease by \$257 million).

Qualified Opinion

In my opinion, except for the effects of not recording pension and disability benefit liabilities and recording the amounts that the General Revenue Fund has paid to the GFSF as expense of the General Revenue Fund as described in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial position of the General Revenue Fund as at March 31, 2011, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Usefulness of these Financial Statements is Limited

These financial statements contain qualifications from Canadian public sector accounting standards and only report transactions and events of the General Revenue Fund, a component of the Summary Financial Statements. Therefore, readers should not use the General Revenue Fund financial statements to understand and assess the Government's overall management of public financial affairs and provincial resources. Rather, they should use the Summary Financial Statements of the Government of the Saskatchewan.

The Government is comprised of over 270 different entities other than the General Revenue Fund. The extent of the Government's controlled financial activities outside of this Fund is significant. Consideration of the financial activities of these entities, and adjusting for the qualifications to the General Revenue Fund has the following impact: total financial assets increase by \$7,188 million (2010 - \$6,661 million); total liabilities increase by \$7,295 million (2010 - \$6,582 million); net debt increases by \$107 million (2010 - decreases by \$79 million); total non-financial assets increase by \$3,567 million (2010 - \$3,304 million); accumulated deficit decreases by \$3,460 million (2010 - \$3,382 million); total revenue including net income from government business enterprises increases by \$2,237 million (2010 - \$1,469 million); total expense increases by \$2,298 million (2010 - \$2,303 million); and the annual surplus decreases by \$61 million (2010 - \$834 million).

Only the Summary Financial Statements report the full nature and extent of the overall financial affairs and resources of the Government of the Province of Saskatchewan.

Regina, Saskatchewan
June 16, 2011

Bonnie Lysyk, MBA, CA•CIA
Provincial Auditor

Of these two sets of audited statements, Saskatchewan governments primarily use the GRF to publicly communicate financial information. Our Office has encouraged Saskatchewan governments to use the Summary Financial Statements as the focus of public reporting. Our Office has, for several years, recommended that the Government:

- ◆ use the summary reporting entity as the primary basis for reporting its financial plans and results (2008 Report – Volume 2)
- ◆ include a statement of operations with estimated revenues and expenses in its summary financial budget (2008 Report – Volume 2)
- ◆ publish actual and forecasted results compared to its financial plan for the entire Government in each quarter (2007 Report – Volume 2)

Focus on GRF financial statements is inappropriate

Since 1992, Saskatchewan governments have not used the Summary Financial Statements to explain the financial results of the Government to the people of Saskatchewan. Rather, many Saskatchewan governments have regarded the GRF financial statements as their main financial statements. They have used the GRF financial statements as the primary source of financial information for public communication.

Proponents claim the use of the GRF statements is relevant because they show tax-supported activities of government and spending as approved by the Legislative Assembly. However, this argument is flawed for at least three reasons:

1. GRF financial statements include significant errors – they do not account for pension costs and promises that will ultimately have to be paid through taxes. They inappropriately include as revenue/expense transfers to/from a “rainy day fund”.⁴ These transfers allow governments to change the financial results of the GRF.⁵
2. GRF’s financial results can be affected to achieve a desired financial picture because the GRF does significant business with other provincial Crown agencies. Government decisions on the amount and timing of funding from/to other Crown agencies (revenue/expenses) dramatically impact the GRF’s annual financial results.
3. GRF financial statements are not meant to provide the complete picture of the Government’s financial performance. The Government carries out significant business outside of the GRF. The GRF financial statements do not reflect these financial results.

To date, Saskatchewan governments have only prepared detailed budgets for the GRF (i.e., the Estimates) for used in the Legislative

⁴ For example, the Growth and Financial Security Fund or the Fiscal Stabilization Fund.

⁵ Legislation permitted Treasury Board to approve transfers between the GRF and the “rainy day fund”. For example, under *The Growth and Financial Security Act*, 50% of a GRF surplus is transferred into the Growth and Fiscal Stabilization Fund and Treasury Board can approve other transfers.

Assembly. Summary budget information is limited. Without detailed budgets for the entire Government, legislators do not have the full picture before them when they are considering how public resources should be spent.

Saskatchewan's use of the GRF differs from that of most other provincial governments where summary financial statements are the main vehicle used to explain their financial plans and results.

It is important that legislators and the public understand that the financial plans and results of the GRF are not the same as those of the entire Government.

In this chapter, we explain why we believe that the primary statements for reporting to the public should be the Summary Financial Statements.

Why should a government use the Summary Financial Statements as its primary tool to report on and communicate its financial results?

Provincial governments throughout Canada focus on the summary financial statements to best portray their government's overall management of provincial finances. Reporting primarily on the Summary Financial Statements is now the standard approach used in other Canadian jurisdictions.

By choosing to move forward to the Summary Financial Statements as the primary tool for public reporting on financial results, a government would:

- ◆ show positive progress in presenting the financial results for the province in a clear, appropriate, and less confusing manner
- ◆ agree that balancing a budget for only a portion of its operations (i.e., the GRF) is no longer appropriate
- ◆ eliminate the confusion caused by using two sets of books to explain its financial results
- ◆ clarify for the public its level of provincial debt

- ◆ acknowledge that a provincial debt rating is based on more than the results from the GRF
- ◆ communicate accurate financial results

Why should the public want financial results reported using the Summary Financial Statements?

The following highlights why public reporting on government financial results in Saskatchewan needs to change:

- ◆ The GRF financial statements contain significant errors by not including the portion of Government's debt related to pension liabilities and by inappropriately including transfers from/to a rainy day fund as revenue/expense. The Summary Financial Statements do not contain these errors.
- ◆ GRF financial earnings can be adjusted to achieve a desired financial picture; the Summary Financial Statement results cannot.
- ◆ The GRF financial statements do not include the over 270 entities controlled by the Government (Crown agencies); the Summary Financial Statements do. Only the Summary Financial Statements capture the financial results of the GRF and all of the Government's Crown agencies.
- ◆ The GRF financial statements do not include the liability for pension debt; the Summary Financial Statements do.
- ◆ Public reporting on two sets of financial statements by a government is confusing; focusing public reporting on the Summary Financial Statements would eliminate this confusion.
- ◆ Saskatchewan's public financial reporting practices are inconsistent to that of other provinces; focusing public reporting on the Summary Financial Statements would make it consistent.

The following sections expand on many of these reasons.

The GRF financial statements contain significant errors

For the past 16 years, our Office has reported concerns about the use and reliability the GRF financial statements published each year in Volume 1 of Public Accounts.⁶ Each year, the audit opinion on the GRF financial statements has been qualified because of significant errors. “Qualified” audit opinions are not normal and should cause concern for legislators and the public.

As set out in Exhibit 2, the Provincial Auditor’s audit opinion on the 2011 GRF financial statements is also qualified. The audit opinion advised readers of the significant errors in these financial statements. Also, the audit opinion cautioned them not to use the GRF financial statements to understand the financial results of the Government.

Exhibit 3 explains the errors in the March 31, 2011 General Revenue Fund financial statements. It sets out, by line item, the affected information from the GRF financial statements, the amount reported, the amount that should have been reported, the difference between these two amounts, and the reason for that difference.

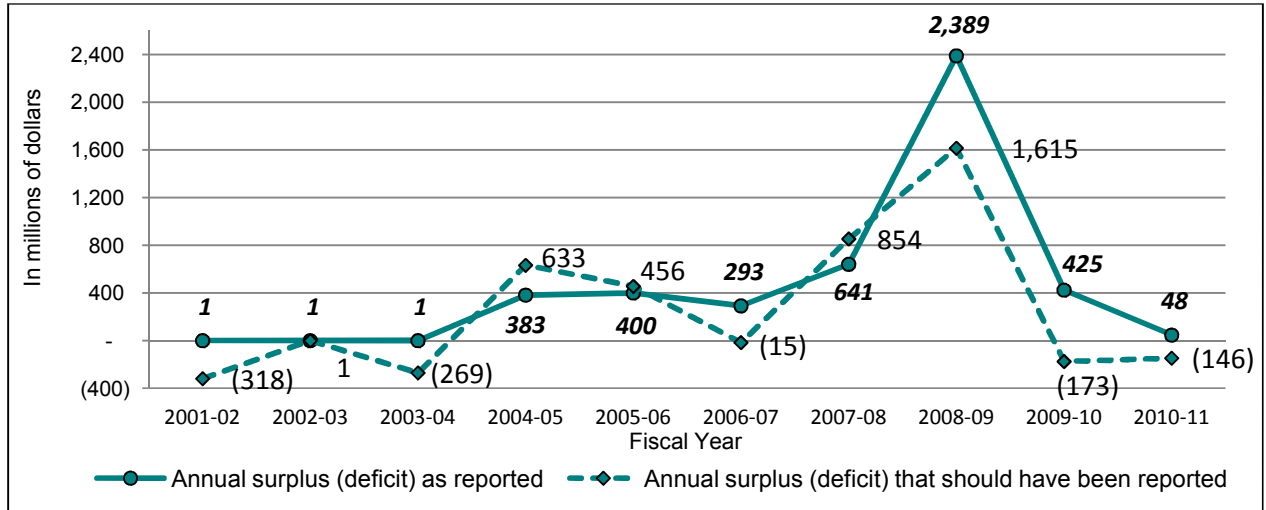
⁶ For example, see *Provincial Auditor Saskatchewan: 1996 Fall Report*, Chapter 12, Department of Finance, p.165.

Exhibit 3 –Impact of errors on the GRF financial statements for the year ended March 31, 2011

Line item on financial statements	Amount reported in the statements	Amount that should be reported in the statements	Difference Amount reported is: Overstated (too high) Understated (too low)	Reason for difference
Statement of Financial Position				
Total Financial Assets	\$3.08 billion	\$4.08 billion	\$1.00 billion (understated)	Unrecorded “Due from Growth and Financial Security Fund”
Total Liabilities	\$6.76 billion	\$12.78 billion	\$6.02 billion (understated)	Unrecorded pension and a disability plan debt
Net Debt	\$3.68 billion	\$ 8.70 billion	\$5.02 billion (understated)	Net impact of not recording the above amounts
Accumulated Deficit	\$499 million	\$5.52 billion	\$5.02 billion (understated)	Net impact of not recording the above amounts
Statement of Operations				
Total Expense	\$10.97 billion	\$11.21 billion	\$240 million (understated)	Unrecorded pension and a disability plan costs for current year
Transfer to the Growth and Financial Security Fund	\$48 million	\$ ---	\$48 million (overstated)	Inappropriately including transfer as an expense
Surplus (deficit)	\$48 million	\$(145) million	\$193 million (overstated)	Net impact of above errors on current year surplus

Instead of following Canadian GAAP, Saskatchewan governments have set inappropriate accounting policies to account for pension costs and transfers between the GRF and a rainy day fund. They have decided to account for pension costs on a cash basis and to treat transfers between the GRF and a rainy day fund as revenues or expenses of the GRF. As previously noted, this allows governments to adjust the financial results of the GRF. As a result, for years, the GRF financial statements have contained significant errors.

Graph 1—Ten-year comparison of GRF annual surplus as reported in the GRF financial statements to what should have been reported⁷



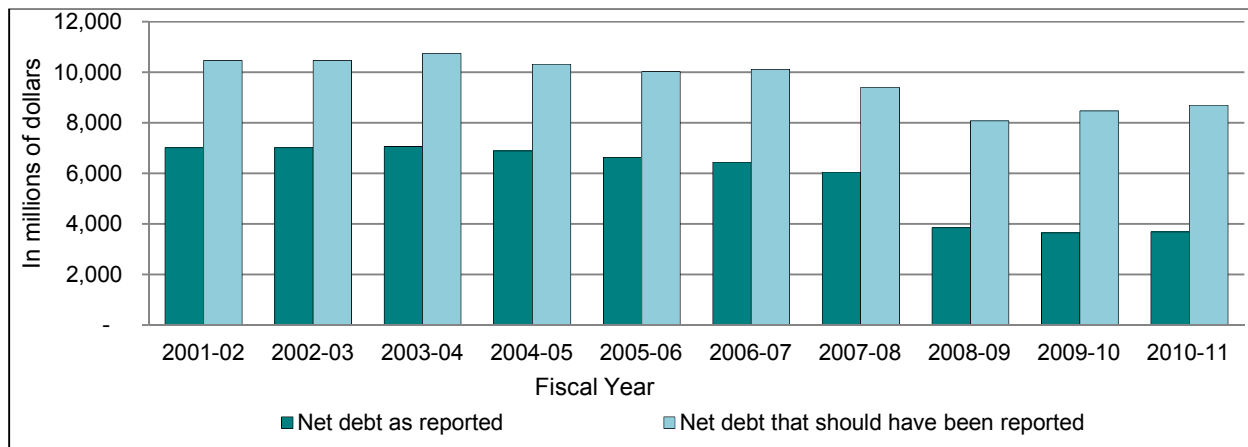
Source: General Revenue Fund audited financial statements and related Provincial Auditor's reports

Annual surplus or deficit is an important financial indicator for governments. It shows the extent to which the revenues raised in a reporting period exceed the expenses (or use of resources) in that period.

As shown in Graph 1, in five out of the last ten years, Saskatchewan governments have reported annual surpluses in the GRF financial statements when they should have reported annual deficits in the GRF financial statements.

⁷ The amounts reflected for GRF are adjusted to reflect the amounts that should have been reported if the GRF followed appropriate accounting policies. See Exhibit 3 for further detail.

Graph 2—Ten-year comparison of GRF net debt as reported in the GRF financial statements to net debt that should have been reported⁸



Source: General Revenue Fund audited financial statements and related independent auditor’s reports

Net debt is another important financial indicator for governments. It highlights the affordability of future government services. It takes into account not just the total amount of debt that a government owes, but how much debt a government has in relation to its financial assets (e.g., cash, receivables). If a government has a large amount of debt, but large financial assets, it is better able to handle its debt situation than a government with a smaller amount of debt but very limited financial assets. A lower net debt is better.

As shown in Graph 2, Saskatchewan governments have consistently understated the net debt reported in the GRF financial statements.

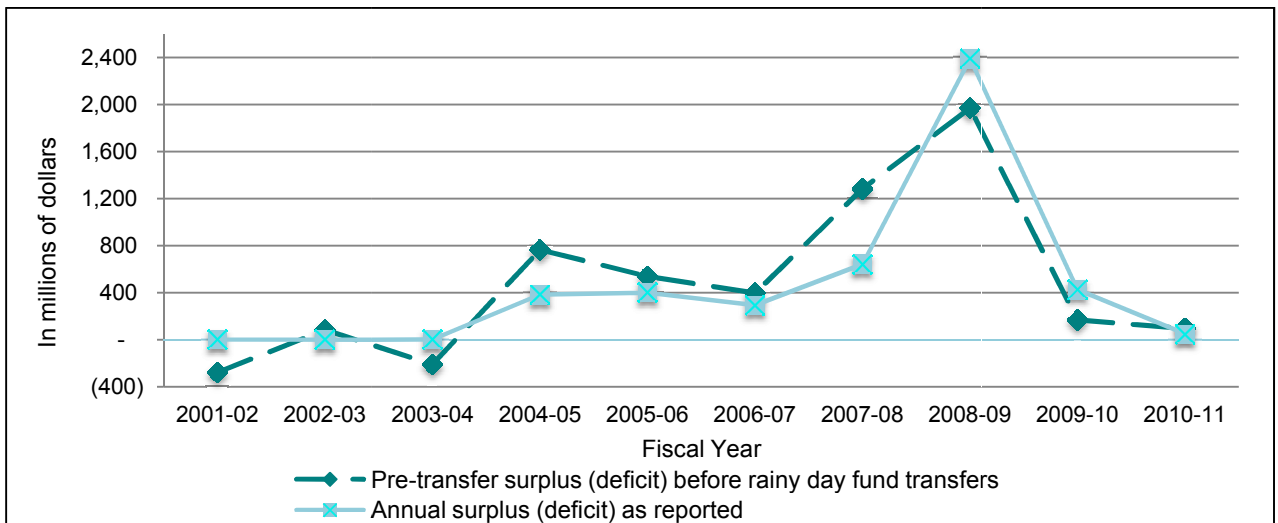
The financial statements of the General Revenue Fund are not prepared in accordance with generally accepted accounting principles (GAAP). Use of GAAP is necessary so that governments account for the cost of their programs and decisions accurately.

⁸ The amounts reflected for GRF are adjusted to reflect the amounts that should have been reported if the GRF followed appropriate accounting policies. See Exhibit 3 for further detail.

GRF financial earnings can be adjusted to achieve a desired financial picture

A government can determine the financial results of the GRF by deciding the amount and timing of transfers between the GRF and a rainy day fund and/or provincial crown agencies. Transfers between a rainy day fund and crown agencies do not affect the financial results of the Summary Financial Statements. The Summary Financial Statements eliminate the financial impact of the Government doing business with itself.

Graph 3—Ten-year comparison of GRF pre-transfer surplus and annual surplus (deficit) (as reported in the GRF financial statements)



Source: General Revenue Fund audited financial statements

Governments use their annual surplus (deficit) as an overall indication of their annual financial results. They also routinely compare this amount to the budgeted annual surplus (deficit).

Since the creation of rainy day funds, Saskatchewan governments have used transfers between the GRF and rainy day funds to change the financial results of the GRF.

In the GRF financial statements, pre-transfer surplus (deficit) represents the excess of GRF revenues over its expenses before taking into account transfers to/from a rainy day fund. The annual surplus (deficit) reported in the GRF financial statements includes transfers to/from a rainy day fund.

As shown in Graph 3, in times of GRF deficits, Saskatchewan governments have used transfers from a rainy day fund to move the GRF from an annual deficit position into an adjusted annual surplus position (e.g., in 2001-02 and in 2003-04). In times of GRF surpluses, other than in 2008-09 and 2009-10, Saskatchewan governments have used the transfers to a rainy day fund to adjust down the GRF annual surplus. Thus, governments use such transfers to arrive at the desired results.

Also, each year the GRF does significant business with other provincial Crown agencies (e.g., Saskatchewan Liquor and Gaming Authority, CIC, regional health authorities). For example, in 2010-11, 79% of the GRF's expenses of \$11.0 billion were for operating and capital transfers, of which 61% (\$5.3 billion) was provided to other provincial Crown agencies (e.g., regional health authorities). In that same year, 9% of GRF revenues of \$11.1 billion were from transfers or recovery of expenses from other provincial Crown agencies (e.g., Saskatchewan Liquor and Gaming Authority, CIC).

Government decisions on the amount and timing of transfers between the GRF and other provincial Crown agencies affect the GRF's financial results. For example,

- ◆ In 2010-11, the Government improved the GRF's financial results by directing certain Crown agencies to provide the GRF with \$965 million (including a special dividend from CIC of \$214 million) and, conversely, it worsened the GRF's financial results when it decided to provide regional health authorities with an additional \$334 million.⁹
- ◆ In 2001-02, the Government improved the GRF's financial results by directing certain Crown agencies to provide the GRF with \$561 million (including a special dividend from CIC of \$200 million).¹⁰

When you look at a government as a whole, none of these transfers make a difference. As previously noted, the Summary Financial Statements eliminate transfers between the GRF, a government's rainy day fund, and various Crown agencies.

⁹ Government of Saskatchewan, *Ministry of Health 2010-11 Annual Report*. pp.33–34.

¹⁰ Government of Saskatchewan, *2001-02 Public Accounts Volume 1*. pp.14, 32.

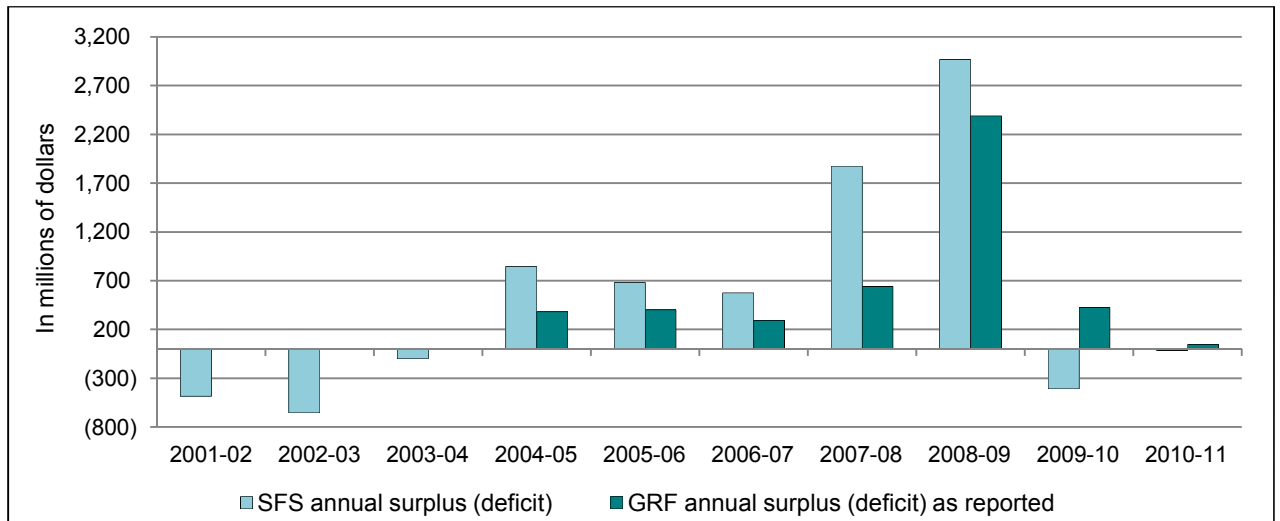
GRF financial statements are not complete—they do not include all entities controlled by the Government

The GRF is a special purpose fund that primarily accounts for the spending of ministries and for revenues not directed by law to go elsewhere. The GRF does not and is not intended to provide an accounting of the full nature and extent of the financial activities of an entire Government. As such, the GRF does not present a complete picture of the financial results of a Government.

Government carries out a significant portion of its activities through Crown agencies other than the GRF (e.g., the delivery of power and telephone services through its CIC Crown corporations, or the provision of housing through Saskatchewan Housing Corporation).

Fewer fluctuations in GRF annual surplus

Graph 4—Ten-year comparison of SFS and GRF annual surplus (deficit) as reported



Source: General Revenue Fund and Summary Financial Statements audited financial statements

Note: The GRF financial statements reported an annual surplus of \$1.1 million in 2001-02, \$860,000 in 2002-03, \$983,000 in 2003-04, \$424.5 million in 2009-10, and \$47.7 million in 2010-11. The SFS reported an annual deficit of \$13.3 million in 2010-11.

Typically, the annual financial results of summary financial statements will fluctuate more. This is a function of the large size of the public sector. Also as noted in the previous section, the size of the GRF annual surplus (deficit) can be managed to achieve a desired result (see Graph 3).

As shown in Graph 4, other than in 2009-10 and 2010-11, since 2003-04, government activities outside of the GRF have contributed positively to Government's overall financial results resulting in higher annual surpluses in the Summary Financial Statements than in the GRF financial statements.

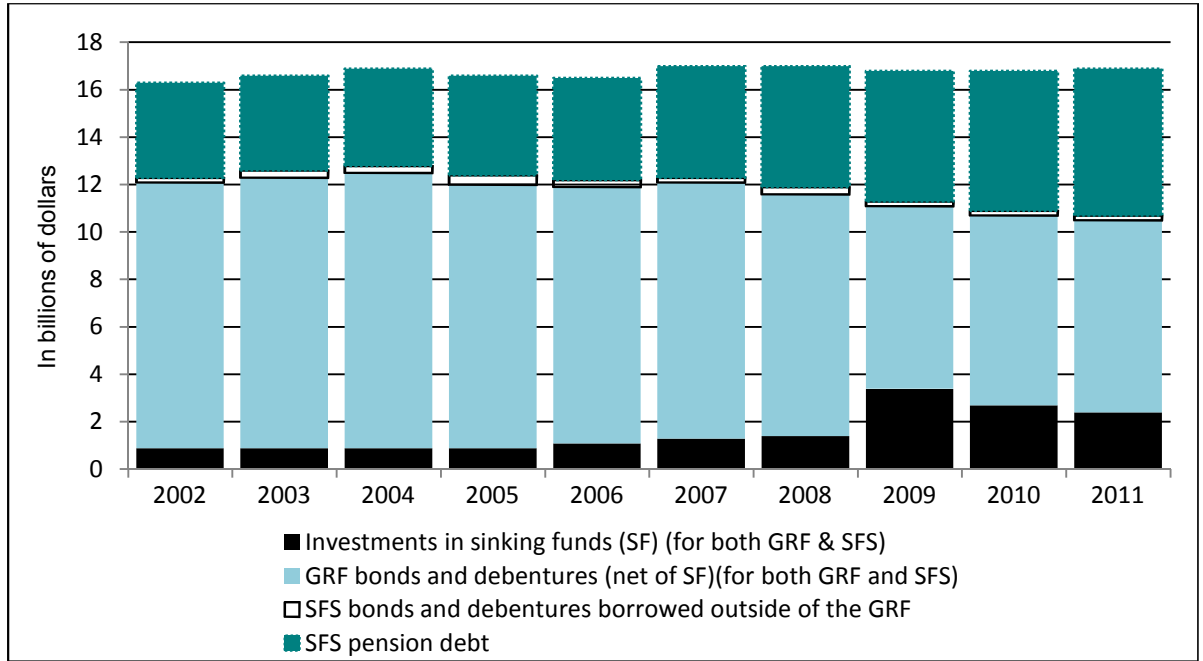
For five years where deficits were incurred on the Summary Financial Statements, the GRF statements reported surpluses. See discussion in the preceding section about governments' use of a rainy day fund and other transfers to improve the GRF financial position in times of deficits.

Reported GRF gross debt missing pension debt

Governments use debt to finance their activities. Governments incur debt by issuing bonds and debentures or by delaying their funding of pension debt. Gross debt is the aggregate of borrowing through the issuance of debt instruments (e.g., bonds and debentures) and pension debt. The GRF statements do not report pension debt.

Saskatchewan governments have set aside money in the GRF to repay a portion of their debt (i.e., investments in sinking funds) and have required Crown corporations, who borrow from the GRF, to help pay for investments in sinking funds. Investments in sinking funds are reflected in both the SFS and GRF financial statements. As shown in Graph 5, over the last ten years, Saskatchewan governments have put aside an additional \$1.5 billion in investments in sinking funds to pay for its debt.

Graph 5—Ten-year comparison of GRF and SFS gross debt (in billions)



Source: General Revenue Fund and Summary Financial Statements audited financial statements

Saskatchewan governments have centralized most of their borrowing by requiring most Crown agencies to borrow through the GRF. Almost all of GRF’s debt in bonds and debentures are non-callable (i.e., can not be redeemed before its maturity). As shown in Graph 5, governments have typically borrowed only small amounts outside of the GRF (e.g., borrowing of school divisions).

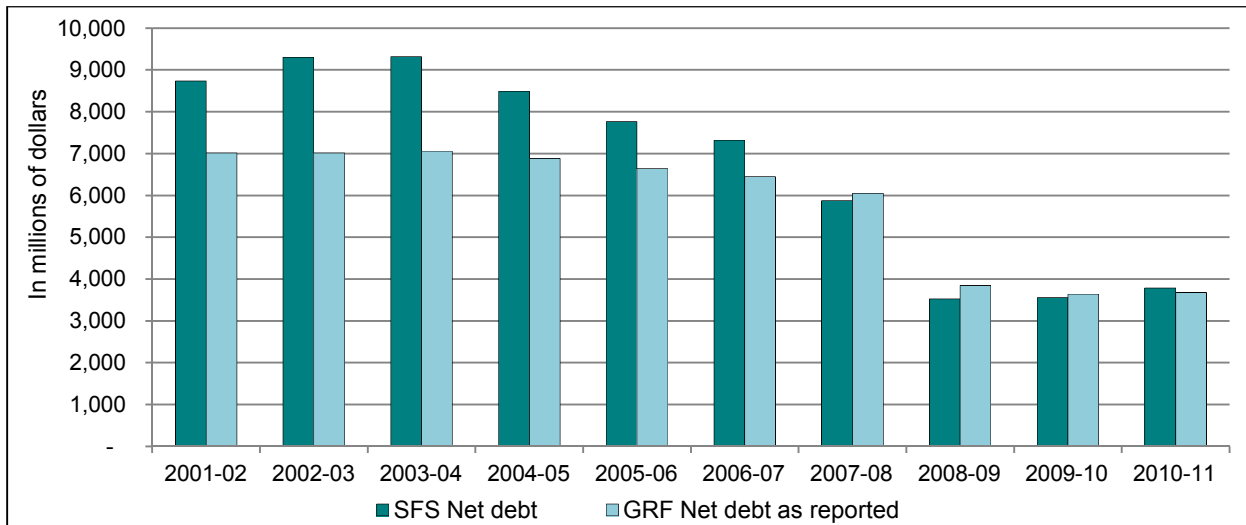
As shown in Graph 5, Saskatchewan governments have reported a decreasing GRF gross debt and an increasing SFS gross debt. Over the last ten years, the GRF gross debt reported in the GRF financial statements has decreased by \$1.6 billion from \$12.1 billion in 2002 to \$10.5 billion in 2011. This \$1.6 billion decrease is comprised of a \$1.6 billion decrease in bonds and debentures.

Over the same period, SFS gross debt has increased by \$600 million from \$16.3 billion in 2002 to \$16.9 billion in 2011. This \$600 million increase is comprised of a \$2.2 billion increase in pension debt offset by a \$1.6 billion decrease in bonds and debentures.

Reported GRF net debt typically lower than SFS

Government holds significant financial assets and has significant liabilities (amounts owed) outside of the GRF. As previously noted, net debt highlights the affordability of future government services. A lower net debt is better.

Graph 6—Ten-year comparison of SFS and GRF net debt as reported



Source: General Revenue Fund and Summary Financial Statements audited financial statements

As shown in Graph 6, until 2006-07, net debt in the Summary Financial Statements was consistently higher than that of the GRF Financial Statements. For the last three years, without recording “due from the Growth and Financial Security Fund” and “pension debt”, the GRF net debt reported in the GRF financial statements is similar to that reported in the SFS (see Exhibit 3 for details).

Using two sets of financial results is confusing

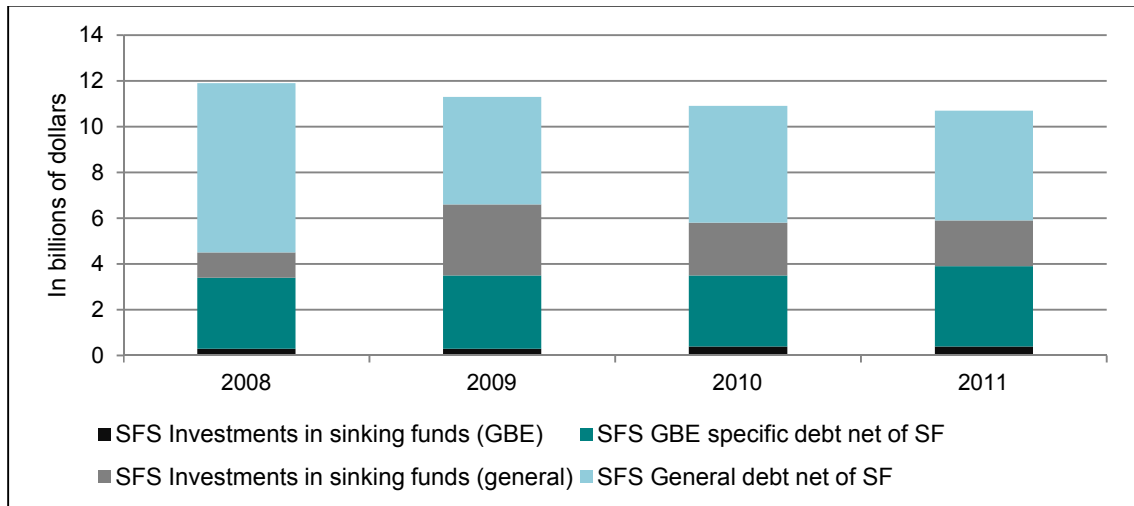
Many Saskatchewan governments’ publications about financial plans or results have included information related to the activities of both the GRF and Summary Financial Statements. In recent years, governments have more often identified whether reported amounts relate to the Summary Financial Statements or the GRF. In many cases, the source of reported amounts remains unclear or ambiguous. The following are recent examples of unclear or ambiguous statements:

- ◆ the *11-12 Budget Summary* states “While others are recording deficits, Saskatchewan will post a surplus” [underline added] and the March 23, 2011 news release entitled “The Saskatchewan Advantage: lower taxes, improved services, less debt” states that the Government “will post a surplus” [underline added].¹¹
- ◆ the *Budget 2005-2006 Highlights* states “12th consecutive balanced budget... \$179.3 million in permanent debt reduction in 2004-05; heading into 2005-06 government debt is at its lowest point in 14 years”¹²

It is unclear if these statements refer to the plans for the entire government (Summary Financial budget) or the GRF.

Saskatchewan governments, when referring to balanced budgets, typically have meant only the budget for the GRF. Saskatchewan governments do not have a history of preparing balanced summary financial budgets. For example, Saskatchewan governments planned for a deficit in 2005-06 (\$173.1 million), and in 2010-11 (\$622.7 million).

Graph 7—Four-year comparison of SFS bonds and debentures (net of investments in sinking funds) by type



Source: Summary Financial Statements audited financial statements (similar breakdown is not available prior to 2008)

¹¹ Government of Saskatchewan, *Saskatchewan Provincial Budget 11-12: The Saskatchewan Advantage Budget Summary*. p.6.

¹² Government of Saskatchewan, *2005-06 Saskatchewan Provincial Budget, Budget Highlights*.

Saskatchewan governments when referring to reducing debt typically have meant the general government debt of the GRF (this is the debt primarily incurred to finance the activities of ministries; it does not include debt incurred to finance the activities of Crown corporations or agencies).

As previously noted, because most of the Government's debt can not be repaid before its maturity, Saskatchewan governments have increased their investments in sinking funds as a way to "reduce debt" (see Graph 5 for ten-year debt trend). Graph 7 shows that Saskatchewan governments have reduced "general" debt and increased government business enterprises debt (e.g., borrowing related to SaskPower, SaskEnergy, etc.). (See **Chapter 12 – Financial reporting—Financial status of pensions—an update** for further discussion of pension debt).

Overall, Saskatchewan governments have contributed to confusion by using financial information from both the GRF and Summary Financial Statements in public debate. Their use of both sets of statements has resulted in unclear messages when communicating information about their financial plans and results.

Inconsistent reporting practices compared to other provinces

Saskatchewan governments' focus on the GRF is inconsistent with the practices of other provincial governments who in recent years have shifted their focus from their GRF-equivalent funds to that of the results of the entire Government.

While all other provincial governments have a fund similar to the GRF, only the governments of British Columbia, Prince Edward Island, and Newfoundland and Labrador publish financial statements for this fund. Newfoundland and Labrador is the only other provincial government that publishes audited financial statements of its GRF-equivalent fund.¹³ However, Saskatchewan remains the only province to include the GRF audited financial statements within the same document as the Summary Financial Statements.

¹³ The Government of Newfoundland and Labrador publishes these statements in its Public Accounts – Volume 2.

Conclusion

Our Office recognizes that Saskatchewan governments have historically used the GRF to communicate financial information. Other provincial governments and the Canadian government have moved to using summary financial statements as the basis of their primary public communications about their financial plans and results.

Change is always challenging. Making the move to using summary financial statements will help a Saskatchewan government to publicly explain their plans and decisions in a more understandable, appropriate, and accurate manner. We encourage Saskatchewan to make this move.

In preparation for this change, a Saskatchewan government will also need to revisit their existing practices for budgeting and reporting financial information of the entire government (see **Chapter 11 – Financial reporting—Summary reporting practices—from an entire government perspective**).

Glossary

Financial asset – an asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations.

Financial liability – any liability that is a contractual obligation to deliver a financial asset to another party, or to exchange financial instruments with another party under conditions that are potentially unfavourable to the entity.

General debt – public debt net of loans to Crown corporations for government business enterprise specific debt.

Government business enterprise – a self-sufficient government organization that has the financial and operating authority to sell goods and services to individuals and organizations outside the government reporting entity as its principal activity. Government business enterprises are recorded in the Summary financial statements using the modified equity method.

Government business enterprise specific debt – debt issued by the GRF specifically on behalf of a government business enterprise where the government expects to realize the receivable from the government business enterprise and settle the external debt simultaneously.

Gross debt – the aggregate of borrowing through the issuance of debt instruments (e.g., bonds and debentures) and pension debt.

Net debt – a measure of a government’s financial position that is calculated as the difference between financial assets and liabilities. Net debt provides a measure of the future revenues required to pay for past transactions and events.

Sinking funds – monies set aside (typically in investments) for the repayment of debt.

Transfer – a transfer of money from a government to an individual, an organization or another government for which the government making the transfer does not: receive any goods or services directly in return, as would occur in a purchase/sale transaction; expect to be repaid in the future, as would be expected in a loan; or expect a financial return, as would be expected in an investment. Major types of transfers include entitlements, transfers under shared cost agreements and grants.