

Chapter 1

Public Accounts – 2012 Auditor’s Reports

1.0 MAIN POINTS

This chapter reports the results of our annual audit of the financial statements of the Government of Saskatchewan, the Summary Financial Statements, and our annual audit of the General Revenue Fund (GRF).

The 2012 Summary Financial Statements are reliable. The 2012 financial statements of the GRF are not reliable—they contain significant, material errors. When calculated in accordance with Canadian generally accepted accounting principles (Canadian GAAP), the GRF incurred a deficit of \$46 million instead of a surplus of \$352 million.

Saskatchewan is the only province in Canada to use the General Revenue Fund for communicating to the public about balanced budgets and for reporting on the financial results of the Government. As this continues to be an increasingly significant issue, we plan to issue a separate report early in 2013 on this matter.

2.0 INTRODUCTION

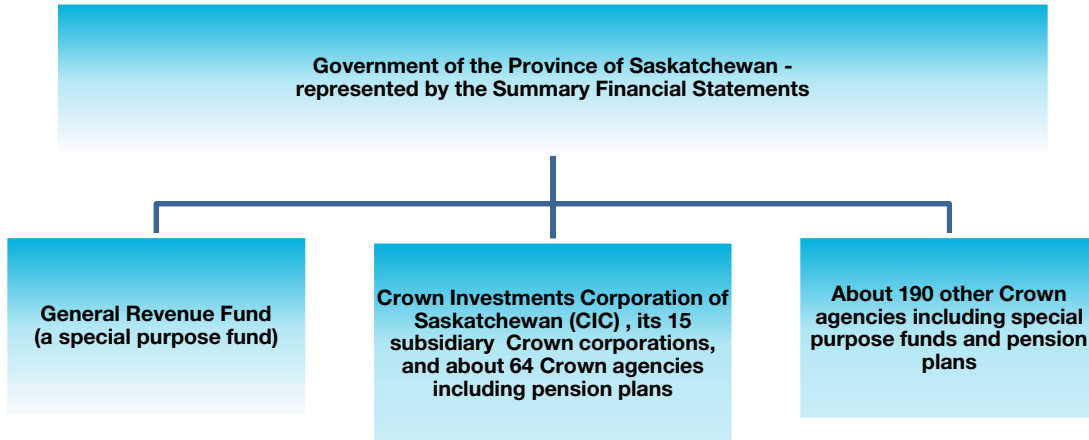
The Public Accounts of Saskatchewan are key accountability reports required by law (i.e., *The Financial Administration Act, 1993*). The Public Accounts provide an important link in an essential chain of public accountability. They are the principal means by which the Government reports on its stewardship of public money to the Legislative Assembly and to the people of Saskatchewan.

Public Accounts – Volume 1 (Main Financial Statements) include the annual statements for the Government of the Province of Saskatchewan, 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 **Summary Financial Statements** provide audited information on the overall 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 **Figure 1**). **These statements are the only appropriate statements to use when trying to understand the financial results of the Government of Saskatchewan and when comparing the operating results and the financial position of Saskatchewan to other provincial governments and the Federal Government.**



Figure 1—The Composition of the Government of Saskatchewan



The **General Revenue Fund Financial Statements** compare spending of ministries to that authorized by Appropriation Acts and other statutory spending authorities (Estimates). They provide 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 are inaccurate in that they contain significant material errors.

3.0 AUDIT CONCLUSIONS AND FINDINGS

In our opinion, for the year ended March 31, 2012:

- › The Government's Summary Financial Statements included in the 2011-12 Public Accounts – Volume 1 are reliable. See Exhibit 2.
- › The General Revenue Fund financial statements included in the 2011-12 Public Accounts – Volume 1 are not reliable. They do not include \$6.12 billion of pension and disability benefit debt. In addition, they incorrectly include transfers between the General Revenue Fund and the Growth and Financial Security Fund in calculating the annual surplus. This enables the Government to always publicly report an annual surplus and to inappropriately make the annual surplus whatever amount it chooses it to be. See Exhibit 1.

3.1 The GRF Financial Statements Contain Significant Errors

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

As set out in **Exhibit 1**, the Provincial Auditor's audit opinion on the 2012 GRF financial statements is qualified. "Qualified" audit opinions are not normal and should cause concern for legislators and the public. The audit opinion advised readers of the

significant errors in the GRF financial statements. Also, the audit opinion cautions users not to use the GRF financial statements to understand the financial results of the Government.

Instead of following Canadian GAAP, the Government continues to use inappropriate accounting policies to account for pension costs and transfers between the GRF and the Growth and Financial Security Fund (GFSF).¹ It inappropriately accounts for pension costs on a cash basis. It therefore does not publicly discuss that there is a \$6.12 billion pension liability in Saskatchewan that will require significant cash in the future to cover annual payments. The GRF treats transfers between the GRF and the GFSF as revenues or expenses of the GRF. This enables the Government to inappropriately adjust the bottom line of the GRF and ensure that these financial statements always show a surplus.

For the year ended March 31, 2012, the GRF reported an annual surplus of \$352 million. If the GRF financial statements had been prepared correctly in accordance with GAAP, they would have reported a deficit of \$46 million. Also, instead of the reported accumulated deficit of \$146 million, the GRF had an accumulated deficit of \$5.56 billion. **Figure 2** explains the errors in the 2012 GRF 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.

Figure 2—Impact of Errors on the GRF Financial Statements for the Year Ended March 31, 2012

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	\$3.00 billion	\$3.71 billion	\$708 million (understated)	Unrecorded "Due from Growth and Financial Security Fund"
Total Liabilities	\$6.56 billion	\$12.68 billion	\$6.12 billion (understated)	Unrecorded pension and a disability plan debt
Net Debt	\$3.56 billion	\$ 8.97 billion	\$5.41 billion (understated)	Net impact of not recording the above amounts
Accumulated Deficit	\$146 million	\$5.56 billion	\$5.41 billion (understated)	Net impact of not recording the above amounts
Statement of Operations				
Total Expense	\$11.07 billion	\$11.17 billion	\$100 million (understated)	Unrecorded pension and a disability plan costs for current year
Transfer to the Growth and Financial Security Fund	\$27 million	\$ ---	\$27 million (overstated)	Inappropriately including transfer as an expense
Transfer from the Growth and Financial Security Fund	\$325 million	\$ ---	\$325 million (overstated)	Inappropriately including transfer as a revenue
Annual Surplus (Deficit)	\$352 million	\$ (46) million	\$398 million (overstated)	Net impact of above errors on current year surplus (deficit)

¹ The Growth and Financial Security Fund was established on May 14, 2008 under *The Growth and Financial Security Act*.



In October 2012, subsequent to the completion of our audit, we became aware that the Ministry of Education, in 2011-12, had provided loan guarantees to certain school divisions. It has agreed to provide those school divisions with funding that allows them to repay their loans that school divisions have with financial institutions. These loans total at least \$31 million.

Under Canadian GAAP, guaranteed loans expected to be repaid through government funding should be accounted for as a liability and expense in the year that the guarantee is made. This means that the 2012 GRF financial statements contain an additional error of at least \$31 million. For the year ended March 31, 2012, the GRF reported annual surplus of \$352 million is overstated by at least an additional \$31 million.

At the time of this report, we are further reviewing to determine whether other loans held by school divisions should be recorded as liabilities of the General Revenue Fund. At March 31, 2012, school divisions had loans totalling \$74.5 million. Our further review of this could indicate that an additional liability of \$43.5 million may need to be recorded.

4.0 EXHIBITS

Exhibit 1—Auditor's Report on 2011-12 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, 2012, 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. These financial statements are prepared to assist Treasury Board in meeting its reporting requirements included in Section 15 of *The Financial Administration Act, 1993*.

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.

Basis for Qualified Opinion

The Government through the General Revenue Fund is responsible for the liabilities of several pension plans and a disability benefit plan. Notes 1 and 5 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 \$6,124 million (2011 - \$6,024 million) as at March 31, 2012 and, for

the year, expenses would increase by \$100 million (2011 - \$241 million), and the surplus would decrease by the same amount.

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 a Transfer to the GFSF) of \$27 million (2011 - \$48 million) and a revenue (as a Transfer from the GFSF) of \$325 million (2011 - \$0). 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 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 \$708 million (2011 - \$1,006 million) and accumulated deficit would decrease by the same amount as at March 31, 2012, and surplus for the year would decrease by \$298 million (2011 - increase by \$48 million).

Qualified Opinion

In my opinion, except for the effects of not recording pension and disability benefit liabilities, and the incorrect recording of transactions between the General Revenue Fund and the GFSF, 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, 2012, 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

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 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 \$6,105 million (2011 - \$7,188 million); total liabilities increase by \$7,088 million (2011 - \$7,295 million); net debt increases by \$983 million (2011 - \$107 million); total non-financial assets increase by \$3,747 million (2011 - \$3,567 million); accumulated deficit decreases by \$2,764 million (2011 - \$3,460 million); total revenue including net income from government business enterprises increases by \$2,161 million (2011 - \$2,237 million); total expense increases by \$2,618 million (2011 - \$2,298 million); and the annual surplus decreases by \$457 million (2011 - \$61 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.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 1 of the financial statements which describes the basis of accounting and the exceptions approved by Treasury Board to Canadian public sector accounting standards. The primary purpose of the General Revenue Fund financial statements is to report the performance of the Fund against the Estimates. As a result, the financial statements may not be suitable for another purpose.

Bonnie Lysyk, MBA, CA
Provincial Auditor
Regina, Saskatchewan
June 14, 2012



Exhibit 2—Auditor's Report on 2011-12 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, 2012, 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, 2012, 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.

Bonnie Lysyk, MBA, CA
Provincial Auditor
Regina, Saskatchewan
June 14, 2012

5.0 GLOSSARY

Accumulated deficit – the sum of the net debt of the government and its non-financial assets or conversely the amount by which expense has exceeded revenue from the inception of the agency plus any required accounting adjustments. This amount reveals important information about an entity's financial position.

Annual surplus (deficit) – the amount by which total revenue for the reporting period exceeds total expenses for the reporting period or conversely total expenses for the reporting period exceed total revenues for the reporting period.

Balanced budget – a “balanced” budget means that planned spending for a fiscal period(s) is equal to or less than planned revenues for the same period(s).

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.

Liability – an amount owed to another party that may be settled through a transfer or use of assets, provision of services, or other yielding of economic benefits in the future.

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. If the total financial assets exceed the total liabilities, it is called net assets.

Transfer – money given to an individual, an organization, or another government agency for which the transferor does not receive goods or services directly in return or expect to be repaid in the future.