



Chapter 3 Agriculture

1.0 MAIN POINTS

This chapter contains the results of our 2011-12 annual audits of the Ministry of Agriculture (Agriculture) and its agencies. Agriculture and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, borrowing and investing. The 2011-12 financial statements of each agency are reliable.

During 2011-12, Agriculture and its agencies had adequate rules and procedures to safeguard public resources except for the recommendations described in this chapter. Most importantly, Agriculture needs to make further improvements in its processes used to make financial estimates for farm stability programs. Agriculture needs to base these financial estimates on the most current information available. Also, more work is required by Agriculture to ensure its key computer systems are available for use by implementing disaster recovery plans.

2.0 INTRODUCTION

The purpose of Agriculture is to enable a prosperous market-driven agricultural industry through a supportive legislative framework, policies, and programs and services.¹

2.1 Financial Overview

In 2011-12, Agriculture recorded revenues of \$144.5 million (2011 - \$166 million) comprised primarily of transfers from the Federal Government for agricultural programs, as well as lease revenue, and land sales. Agriculture's annual report provides further detail on its revenues and expenses including reasons for differences from its approved budget.² Also, at March 31, 2012, Agriculture held agricultural lands, buildings, and equipment with a net book value of \$79.5 million.

Agriculture provides significant funding to others such as \$303.9 million to Saskatchewan Crop Insurance Corporation for the crop insurance, excess moisture, and AgriStability programs. At March 31, 2012, Agriculture had 420 employees.³

¹ Ministry of Agriculture, *Ministry Plan for 2011-12*, p. 2.

² www.agriculture.gov.sk.ca/ministry-overview.

³ Government of Saskatchewan. *Public Service Commission 2011-12 Annual Report*, p. 28.

Figure 1 – Major Programs and Spending

	Estimates 2011-12	Actual 2011-12
	(in millions of dollars)	
Central Management and Services	\$ 11.8	\$ 9.6
Policy and Planning	4.0	3.7
Research and Technology	18.1	20.2
Regional Services	31.6	28.3
Land Management	8.2	5.2
Industry Assistance	4.7	5.7
Irrigation and Water Infrastructure	7.8	4.9
Financial Programs	8.9	6.9
Business Risk Management	<u>320.8</u>	<u>352.9</u>
Total Appropriation	415.9 ⁴	437.4
Capital Asset Amortization	<u>2.0</u>	<u>2.2</u>
Total Expenses	<u>\$ 417.9</u>	<u>\$ 439.6</u>

Source: 2011-12 Ministry of Agriculture Annual Report

3.0 BACKGROUND

The authority for Agriculture is contained in *The Department of Agriculture, Food and Rural Revitalization Act*. Agriculture is responsible for many agencies that administer and support agricultural programs in Saskatchewan. Each of these agencies listed below has a March 31 year-end.

Agricultural Credit Corporation of Saskatchewan
 Agricultural Implements Board
 Agri-Food Council
 Crop Reinsurance Fund of Saskatchewan
 Horned Cattle Fund
 Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund
 Livestock Services Revolving Fund
 Pastures Revolving Fund
 Prairie Agricultural Machinery Institute
 Saskatchewan Agricultural Stabilization Fund
 Saskatchewan Crop Insurance Corporation

⁴ During the year, Agriculture received a special warrant of \$30.29 million. Thus they did not exceed their appropriation.



4.0 AUDIT CONCLUSIONS, SCOPE AND FINDINGS

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

- › **Agriculture and its agencies had effective rules and procedures to safeguard public resources except for the matters reported in this chapter**
- › **Agriculture and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

<i>The Agri-Food Act, 2004</i>	<i>The Horned Cattle Purchases Act</i>
<i>The Agri-Food Regulations, 2004</i>	<i>The Horned Cattle Purchases Regulations, 1983</i>
<i>The Agricultural Credit Corporation of Saskatchewan Act</i>	<i>The Intensive Livestock Operations Environmental Rehabilitation Program Regulations</i>
<i>The Agricultural Credit Corporation of Saskatchewan Regulation, 1989</i>	<i>The Livestock Dealer Regulations, 1995</i>
<i>The Agriculture Implements Act</i>	<i>The Livestock Inspections and Transportation Regulations, 1978</i>
<i>The Agriculture Implements Regulations, 1982</i>	<i>The 2011 Saskatchewan Feed and Forage Program Regulations</i>
<i>The Animal Identification Act</i>	<i>The Short-term Hog Loan Regulations, 2008</i>
<i>The Animal Products Act</i>	<i>The Short-term Cattle Loan Program Regulations</i>
<i>The Brand Regulations</i>	<i>The Wildlife Damage and Livestock Predation Regulations</i>
<i>The Crop Insurance Act</i>	<i>The Financial Administration Act, 1993</i>
<i>The Crop Insurance Amendment Regulations, 2012 (No. 2)</i>	<i>The Government Organization Act</i>
<i>The Department of Agriculture, Food and Rural Revitalization Act</i>	<i>The Irrigation Act, 1996</i>
<i>The Ministry of Agriculture Regulations, 2007</i>	<i>The Pastures Act</i>
<i>The Farm Financial Stability Act</i>	<i>The Pastures Regulations</i>
<i>The AIDA and SFIP Program Regulations</i>	<i>The Prairie Agricultural Machinery Institute Act, 1999</i>
<i>The Canada Saskatchewan Specified Risk Material Management Program Regulations</i>	<i>The Prairie Agricultural Machinery Institute Regulations, 1999</i>
<i>The Cattle Breeder Associations Loan Guarantee Regulations, 1991</i>	<i>The Provincial Lands Act</i>
<i>The Cattle Feeder Associations Loan Guarantee Regulations, 1989</i>	<i>The Provincial Lands Regulations</i>
<i>The Excess Moisture Program Regulations, 2011</i>	<i>The Public Service Act, 1998</i>
<i>The Farm and Ranch Water Infrastructure Program Regulations</i>	<i>The Purchasing Act, 2004</i>
	Contracts and Orders in Council issued pursuant to the above legislation

- › **The financial statements of Agriculture's agencies are reliable**

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of Agriculture's and its agencies' controls. The CICA defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

In the 2011-12 audits, we examined the effectiveness of Agriculture's and its agencies' financial-related controls used to administer their spending, revenues, and key assets. Also, we examined the effectiveness of the controls used to keep reliable financial records and prepare reliable financial reports. We paid particular attention to the following two areas:

- › First, the processes Agriculture used to estimate its costs for key business management programs and related amounts it owed to and owing from others.

Information on the actual costs and recovery of those costs from the Federal Government is not available at year end for some of these key programs

- › Second, the controls over key computer systems that Agriculture relied on to administer its programs (e.g., agricultural land, land leases, and land sales)

4.1 Documentation of Accounting Estimates Improved

We recommended that the Ministry of Agriculture consistently document assumptions and analysis when making significant accounting estimates. (2009 Report – Volume 3; Public Accounts Committee agreement June 25, 2010)

Status – Implemented.

The Ministry has improved its documentation and now consistently documents its assumptions and analysis when making significant accounting estimates.

4.2 Use Current Information when Estimating Expenses

Agriculture did not always actively seek or use current information when making its estimates of expenses for the AgriStability and AgrilInvest programs.

Figure 2 presents Agriculture's significant accounting estimates as of March 31, 2012. These estimates relate primarily to its business risk management programs (e.g., AgriStability and AgrilInvest programs). AgriStability is a large and complex business risk management program with expenses that often exceed \$100 million each year. The combined AgriStability and AgrilInvest program expenses for 2011-12 were \$83.4 million. Agriculture recognizes that estimating expenses related to these programs is challenging.

Figure 3 presents a five-year history of these program expenses and the change in each estimate in the following year (i.e., reversal of prior year expense recorded as revenue).

For its March 31, 2012 estimate of the AgriStability and AgrilInvest expenses related to the current crop year (2011 crop), Agriculture used the Federal Government's January 2012 estimate. The Federal Government's January estimate was based on information available up to December 2011.

Agriculture did not actively seek additional information to confirm the reasonableness of its use of the Federal Government's January 2012 estimate at March 31, 2012. That is, it did not seek information on the impact of producer claims for losses processed between December 31 and March 31, nor the status of claims previously submitted but not yet finalized.⁵ Because Agriculture used December information without further work for its March estimate, its estimate may not reflect the best information available at March 31.

⁵ Producers participating in AgriStability and AgrilInvest programs have until September 30th to submit claims for losses for their crop year. For the 2011-12 fiscal year, the submission deadline was September 30, 2012 for the 2011 crop.



Because Saskatchewan Crop Insurance Corporation (SCIC) cannot process all producer claims related to past crop years (i.e., 2009 and 2010 crop years) by March 31 each year, Agriculture estimates its AgriStability and AgriInvest expenses for unpaid producer claims for these crop years.⁶ For the year ended March 31, 2012, Agriculture used the initial estimate prepared by SCIC without carrying out any additional procedures. For example, Agriculture did not actively seek information from SCIC about the basis of SCIC's estimates, events, or adjustments that would impact the reasonableness of the SCIC's estimates. Agriculture's financial results (and the General Revenue Fund financial statements) for business risk management expenses were understated by about \$5 million.

1. We recommend that the Ministry of Agriculture use the most current information when estimating program expenses.

Figure 2—Significant Estimates by Type

	Actual 2010-11	Actual 2011-12
	(in millions of dollars)	
Transfers due from the Federal Government related to business risk management programs	\$ 8.4	\$ 4.8
Uncollectible receivables	(7.5)	(0.65)
Transfers due to the Federal Government and Saskatchewan Crop Insurance related to business risk management programs (e.g., AgriStability and AgriInvest for current and past crop years)	159.3	111.9
AgriStability and AgriInvest program expense	141.2	83.4

Source: Ministry of Agriculture accounting records

Figure 3—Five-year History of AgriStability and AgriInvest Program Expenses

Year	Total AgriStability and AgriInvest Expense Recorded in Fiscal Year (in millions of \$)	Reversal of Prior Year Expense Recorded as Revenue (in millions of \$)	Reversal as a Percentage of Initial Expense Recorded
2007-08	\$ 115.8	\$ 37.3 ⁷	32%
2008-09	118.1	43.1	37%
2009-10	131.4	46.4	35%
2010-11	141.2	3.4	2.5%
2011-12	83.4	Not yet available	N/A

Source: Ministry of Agriculture accounting records

⁶ SCIC assumed responsibility for administering the AgriStability program from the Federal Government starting with the 2009 crop year.

⁷ A reduction to the AgriStability expense adjustment of \$92.96 million was recorded in 2007-08 that was a cumulative adjustment relating to 2003-04 to 2007-08.

4.3 Strengthen Senior Management Approval of Accounting Estimates

Each year, the Federal Government asks Agriculture to provide, in writing, its agreement with the federal forecast of provincial AgriStability expenses. Both the Ministry and the Federal Government use this forecast to make decisions about the AgriStability Program.

To assess the reasonableness of the federal forecast, Agriculture reviews the assumptions used by the Federal Government to develop the federal forecast. The federal forecast relies on a number of key assumptions (e.g., future commodity prices). Agriculture uses a model to document and track the methods it uses to assess, recalculate, review, and agree upon the AgriStability forecast. For example, staff complete a checklist documenting who completes each required step and when. However, senior management does not formally review or approve the results of the forecast model before sending Agriculture's agreement with the forecast to the Federal Government.

Given the complexity and size of the AgriStability program, we expected senior management to actively oversee staff's review and assessment of the AgriStability forecast before providing Agriculture's agreement with the forecast to the Federal Government. Reviewing staff's work and leaving evidence of such would confirm senior management's agreement with key assumptions and that the assessment was completed as expected. This may help increase the likelihood of the resulting forecast providing a reasonable estimate of expected program costs thereby providing better information upon which to make program decisions. Management informed us that this review by senior management did occur, however, evidence of this review was not available.

2. We recommend that the Ministry of Agriculture require senior management to review and document its approval of the results of the AgriStability forecast prior to providing the Ministry's agreement with the forecast to the Federal Government.

4.4 Monitor Cash Receipts from Land Sales

We recommended that the Ministry of Agriculture develop processes to track cash receipts from land sales. (2011 Report – Volume 2)

Status – We continue to make this recommendation.

During 2011-12, Agriculture started to develop processes to track cash receipts from land sales. At March 31, 2012, the processes were not complete. Management told us that it finalized the processes in the fall of 2012. We will assess these new processes in our next audit.



4.5 Payroll Service Level Agreement in Place

We recommended that the Ministry of Agriculture establish an agreement with the Public Service Commission for providing payroll services that clearly assigns responsibility for key payroll activities. (2011 Report – Volume 2)

Status – Implemented.

In 2011-12, Agriculture and the Public Service Commission signed an agreement that clearly assigns responsibility for key payroll activities.

4.6 Need Disaster Recovery Plans

We recommended that the Ministry of Agriculture have tested disaster recovery plans for its critical computer systems. (2010 Report – Volume 2; Public Accounts Committee agreement June 7, 2011)

Status – We continue to make this recommendation.

In July 2011, Agriculture signed a new memorandum of understanding with its information technology service provider the Information Technology Office (ITO). In November 2011, Agriculture approved a new information technology (IT) strategic plan. During the preparation and analysis for these activities, Agriculture had identified three critical IT systems (there are 50 IT systems in total) that need to be up and running in less than one week after the interruption in order to continue with its business operations.

In July 2012, Agriculture had an untested draft disaster recovery plan (DRP) for one of these systems, the Crown Land Management System. It had not developed a DRP for its other two critical IT systems (e.g., the Livestock Information Management System that it uses to record cattle inspection fees). Without implemented and tested DRPs, there is increased risk that Agriculture's critical IT systems will not be available when needed.

4.7 Improve IT Strategic Plan

We recommended that the Ministry of Agriculture prepare a written information technology plan. (2010 Report – Volume 2; Public Accounts Committee agreement June 7, 2011)

Status – Implemented.

In 2011-12, Agriculture prepared and approved an information technology strategic plan.

4.8 IT Processes Strengthened

We recommended that the Ministry of Agriculture configure its critical information technology systems to require a unique password for each user and passwords to be changed periodically. (2011 Report – Volume 2)

Status – Implemented.

In 2011-12, Agriculture implemented new password requirements for its critical information systems. The requirements include having a unique password for each user and having passwords changed periodically.

4.9 Need ITO Assurance on Operating Effectiveness

We recommended that the Ministry of Agriculture obtain assurance from the Information Technology Office on the operating effectiveness of the Information Technology Office's controls over its client systems and data and assess the impact of deficient controls on the Ministry of Agriculture's operations. (2010 Report – Volume 2; Public Accounts Committee agreement June 7, 2011)

Status – We continue to make this recommendation.

During 2011-12, Agriculture continued to work with ITO on obtaining information about the quality of ITO's controls over the Ministry's computer systems and data. During 2011-12, Agriculture did not receive such assurance.