



Chapter 9 Finance

1.0 MAIN POINTS

The chapter reports the results of our annual audit of the Ministry of Finance (Finance) and its agencies. Finance and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. The 2012 financial statements of the agencies are reliable. Finance and its agencies had effective rules and procedures to safeguard public resources except for the items noted in this chapter.

Finance receives and records corporate income tax revenue for the Province. It also administers the corporate capital tax program including the resource surcharge revenues. Finance needs to improve the processes it uses to record both corporate income tax and resource surcharge revenues so that revenue is recorded in the proper period.

Finance did not receive sufficient information to monitor its information technology systems. It continued to work with the Information Technology Office to obtain better information. Also, Finance did not follow its processes to remove unneeded user access to its information technology systems and data.

Finance had not yet set market-based benchmarks for its sinking fund investments to help it evaluate whether it earned an effective return on these investments. It also had not yet completed the documentation of its treasury management procedures.

This chapter also contains an update on the status of previous recommendations agreed to by the Standing Committee on Public Accounts (PAC).

2.0 INTRODUCTION

Finance helps the Government manage and account for public money. Its mandate is to provide options and advice to the 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 ministry-wide revenue and expense systems including the financial modules of the computerized Multi-informational Database Applications system (called 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 on matters related to public sector compensation and management or collective bargaining
 - Financial management and accounting
 - Annual performance planning, measuring, and reporting processes¹

2.1 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 Fund²) provide the Legislative Assembly with audited financial statements; some also provide an annual report.

Year ended March 31

General Revenue Fund
 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

See Chapter 1 for the results of our audit of the General Revenue Fund.

¹ Ministry of Finance. (2012). *2011-12 Annual Report*.

² This Fund does not prepare financial statements and is not legally required to do so.



2.2 Financial Overview

For the year ended March 31, 2012, Finance managed gross public debt of \$10.9 billion (2011 - \$10.5 billion) and investments in sinking funds of \$2.6 billion (2011 - \$2.4 billion).³ It administered revenues of \$8.0 billion (2011 - \$8.0 billion) and spent approximately \$0.8 billion (2011 - \$0.8 billion).⁴ **Figure 1** compares actual revenue to budget by major type of revenue, **Figure 2** compares actual spending to budget by program.

Finance's annual report explains significant differences between actual and budgeted revenues and expenses.

Figure 1 – Comparison of Estimates to Actual by Major Type of Revenue

	Estimates 2011-12	Actual 2011-12
	(in millions of dollars)	
Taxation	\$ 5,259.8	\$ 5,026.9
Non-Renewable Resources–Resource Surcharge	438.3	452.8
Transfers from Government Entities	567.9	731.9
Other Own-Source Revenue	300.1	416.3
Transfers from the Federal Government	1,209.8	1,209.6
Total	\$ 7,775.9	\$ 7,837.5

Source: Saskatchewan Provincial Budget 11-12 Estimates (votes 12 and 18); Ministry of Finance (2012). 11-12 Annual Report.

Figure 2 – Comparison of Estimates to Actual Spending by Major Program

	Estimates 2011-12	Actual 2011-12
	(in millions of dollars)	
Public Service Pension and Benefits	\$ 280.9	\$ 307.8 ⁵
Revenue Division	16.9	16.8
Research and Development Tax Credit	15.0	33.8
Provincial Comptroller	12.5	12.7
Central Management and Services	6.4	6.7
Budget Analysis	5.0	4.9
Treasury and Debt Management	2.3	1.9
Personnel Policy Secretariat	0.5	0.4
Miscellaneous	0.1	0.1
Total Appropriation – Vote 18	339.6	385.1
Capital Asset Acquisitions	(1.0)	(2.1)
Amortization of Capital Assets	1.2	1.1
Total Expense – Vote 18	339.8	384.1
Debt Servicing Appropriation and Expense – Vote 12	420.0	412.0
Total Expense – Finance	\$ 759.8	\$ 796.1

Source: Saskatchewan Provincial Budget 11-12 Estimates (votes 12 and 18), Ministry of Finance (2012). 11-12 Annual Report, and Public Accounts 2011-12 Volume 2 Details of Revenue and Expense.

³ Government of Saskatchewan. (2012) 2011-12 Public Accounts, Volume 1. p. 69.

⁴ Ministry of Finance. (2012). 11-12 Annual Report.

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 \$281.9 million. Using the accrual basis of accounting for the year ended March 31, 2012, the actual expense was \$307.8 million (restated to include \$25.9 million of unrecorded pension costs of the Public Service Superannuation Plan).

Figure 3—Comparison of Estimates to Actual Spending by Object

	Estimates 2011-12	Actual 2011-12
	(in millions of dollars)	
Debt Servicing	\$ 420	\$ 412
Salaries and Benefits (Includes Pensions)	304	331 ⁵
Transfers – Operating	15	33
Goods and Services	20	19
Capital Asset Amortization	1	1
Total Expense	\$ 760	\$ 796

Source: Saskatchewan Provincial Budget 11-12 Estimates (votes 12 and 18), Ministry of Finance (2012). 11-12 Annual Report.

3.0 AUDIT CONCLUSIONS, SCOPE AND FINDINGS

To complete our audit of the Public Employees Pension Plan, our Office worked with Deloitte & Touche LLP, the appointed auditor. We used the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (www.auditor.sk.ca/rrd.html).

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

- › Finance and its agencies had effective rules and procedures to safeguard public resources except for the matters reported in this chapter
- › Finance and its agencies complied with the authorities in Section 5.2 governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing
- › Finance’s agencies with March year ends had reliable financial statements

To do our work, we used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of Finance’s 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 our 2011-12 audit, we examined the effectiveness of Finance’s financial-related controls used to administer the revenue listed in **Figure 1** and spending listed in **Figure 2**. Also, we examined the effectiveness of the controls it used to keep reliable financial records and prepare reliable financial reports.

Because final tax assessments or valuation of resource sales may differ from initial assessment or valuation upon which tax installments are made, Finance must estimate its income tax and resource surcharge revenues. We assessed the processes that Finance used to assess, estimate, collect, and record its revenues. Because Finance administers the GRF’s bank accounts, short and long-term debt, and short and long-term investments (including investments in the Government’s sinking funds), we assessed Finance’s processes to record and manage cash, including its bank reconciliation procedures and the opening and closing of bank accounts. In addition, we examined Finance’s processes to buy and sell investments and to obtain and repay debt.



The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2012, the Government approved, through Orders in Council (special warrants), spending of \$425.6 million; the Legislative Assembly later approved these amounts through appropriation acts.

3.1 Estimating Corporate Income Tax Revenue

Starting in 2012-13, planned changes in the timing of the receipt of cash from the Federal Government for corporate income tax may result in differences between cash receipts and the revenue earned by the Government.

Under a tax collection agreement with the Federal Government, the Federal Government administers the provincial corporate income tax program. The Federal Government collects Saskatchewan's share of corporate income tax from taxpayers and pays Finance as set out in the agreement.

On September 6, 2012, the Government approved a new tax collection agreement with the Federal Government.⁶ Under the amended agreement, Finance will receive corporate income tax payments from the Federal Government sooner than in previous years.⁷ For example, in future years, it will receive 12 months of corporate income tax revenue over a six-month period beginning in February.

Finance accounts for corporate income tax revenue using the following accounting policy: "for corporate and individual income taxes, cash received from the Federal Government is used as the basis for estimating the tax revenue."

In 2011-12, Finance received \$794 million from the Federal Government. It used this amount as its best estimate of revenue because it felt that the federal cash received approximated the revenue it earned for that period based on the information available at March 31, 2012.⁸ We agreed that those federal cash receipts provided a reasonable estimate of Finance's revenue based on information available to the date of the completion of the Government's financial statements. As such, we considered this policy consistent with Canadian public sector accounting standards (GAAP).

GAAP recognizes that income tax revenue is not known with certainty until returns are assessed, and audits, appeals, and/or court decisions are finalized. As a result, GAAP requires governments to record income tax revenue based on the earning of taxable income by corporations.

Corporations make installment tax payments to the Federal Government for federal and applicable provincial taxes.⁹ Those installments approximate the taxes that corporations expect to pay on their taxable income and reflect the best amount upon which to record corporate income earned by Saskatchewan. Corporations make tax installments throughout the year (e.g., on quarterly or monthly basis).

⁶ Order in Council 487/12.

⁷ In 2012-13, Finance will receive 26 installments of which 18 will be for the 2012 tax year and eight for the 2013 tax year. Each year thereafter, it will receive 12 equal installments throughout a six-month period beginning in February.

⁸ Corporate income tax is included as revenue in the Summary Financial Statements and in the financial statements of the General Revenue Fund.

⁹ Some corporations pay corporate income taxes in more than one province.

By Saskatchewan receiving, from the Federal Government, the full year's corporate income tax within a six-month period, the timing of the federal cash receipts will no longer align with the general timing of installments made by corporate income taxpayers. Finance's year end of March 31 falls within this six-month period. So, if Saskatchewan continues to use federal cash receipts as the basis of recording corporate income tax revenues, corporate income tax revenues will be accounted for in the incorrect year.

To correctly estimate the corporate income tax revenues earned for a fiscal year, Saskatchewan will need to consider the amount of installments received from corporations for Saskatchewan corporate income taxes during its fiscal year. This information is available from taxpayers. The current tax collection agreement does not require the Federal Government to provide Saskatchewan with information about installments.

Based on Finance's corporate income tax forecast published in the Government's 2012-13 1st Quarter Financial Report – General Revenue Fund (p. 4), Finance plans to continue to use federal cash receipts for corporate income tax as its best estimate of its corporate income tax revenue.

Without an adjustment to its processes to estimate and record corporate income tax revenues that it earns within a fiscal period, future financial statements of the Government may contain significant errors.

1. We recommend that the Ministry of Finance revise its processes to estimate and record corporate income tax revenues so that it only records revenue that it has earned.

3.2 Implementation of Past Finance-Related Recommendations Needed

Figure 4 sets out our past finance-related recommendations by theme indicating the status of each recommendation at March 31, 2012. It indicates whether PAC has considered the recommendation and if so, the results of its consideration, and the actions the Ministry took during 2011-12.

Figure 4—Status of Past Recommendations

Past Recommendation (Initial Report)	Status of Recommendation	Status of PAC Consideration at September 30, 2012	Finance Actions in 2011-12
Human Resources			
We recommend that the Ministry of Finance establish a current service level agreement with the Public Service Commission over the provision of human resource services. (2011 Report – Volume 2 – Chapter 9)	Implemented	Not yet considered	During the year Finance established a client service agreement with the Public Service Commission effective April 1, 2011 establishing the roles and responsibilities over the provision of human resource services.



Past Recommendation (Initial Report)	Status of Recommendation	Status of PAC Consideration at September 30, 2012	Finance Actions in 2011-12
Revenues			
We recommended that the Ministry of Finance establish a process to better estimate resource surcharge revenue earned during each quarter and record this estimate each quarter. (2011 Report – Volume 2 – Chapter 9)	Not Implemented – We continue to make this recommendation.	Not yet considered	During the year Finance collected and analyzed prior year data to determine if a more accurate reporting model for resource surcharge revenue can be developed. Finance continues to work toward a model to produce an accurate estimate and record an accrual for the reconciliation payments.
Information technology			
We recommend 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)	Partially Implemented – We continue to make this recommendation.	Agreement March 13, 2007	During 2011-12, Finance and the ITO signed a new memorandum of understanding (MOU) regarding IT services being provided by the ITO. The MOU included some information on information technology security requirements. The MOU also included Finance's specific disaster recovery requirements. In 2011-12, the ITO performed a disaster recovery test on one of Finance's systems but was unable to conclude that it would be able to fully recover the system and data in the event of a disaster. Finance has not yet determined how it plans to respond to this risk. During 2011-12, Finance and another of its IT service providers did conduct successful disaster recovery tests on Finance's main revenue system.
We recommend 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)	Partially Implemented – We continue to make this recommendation	Agreement May 18, 2011	As part of its MOU with ITO, Finance requested certain reports from the ITO which provide limited information on the security and availability of Finance's systems and data. However, Finance did not receive all of these reports consistently throughout the year. Also, these reports do not provide sufficient information on the adequacy of the ITO's controls for keeping Finance's systems and data secure and available. Control weaknesses exist at the ITO and without Finance receiving complete information, Finance cannot determine the impact of security weaknesses on its systems and data and take corrective action where necessary.
We recommend that the Ministry of Finance follow its processes for removing unneeded user access to its information technology systems and data promptly. (2010 Report – Volume 2 – Chapter 8)	Partially Implemented – We continue to make this recommendation	Agreement May 18, 2011	Finance receives and reviews bi-weekly reports that identify inactive system users. Finance uses this report to help identify and remove employees who no longer require system access. However, during 2011-12, there were still instances where Finance did not request

Past Recommendation (Initial Report)	Status of Recommendation	Status of PAC Consideration at September 30, 2012	Finance Actions in 2011-12
			timely removal of unneeded user access to its IT systems. In 2012-13 Finance plans to request staff to submit user access removal requests at least one week prior to termination date.
Treasury management			
We recommend 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)	Partially Implemented – We continue to make this recommendation as it relates to sinking fund investments	Agreement June 25, 2010	For its sinking funds investments, Finance has not yet set market-based benchmarks to enable it to assess whether its investments earned an effective return. Finance continues to research a relevant basis and approach for assessing the performance of these investments.
We recommend the Ministry of Finance monitor and report publicly on the performance of the investments in its sinking funds. (2009 Report – Volume 1 – Chapter 5)	Not Implemented – We continue to make this recommendation		As noted above, Finance continued to research relevant basis for measuring and in turn reporting the performance of the sinking funds publicly.
We recommend the Ministry of Finance documents its key treasury management procedures in sufficient detail so it can continue to operate effectively after staff turnover. (2009 Report – Volume 1 – Chapter 5)	Partially implemented – We continue to make this recommendation		Finance is planning to implement a new debt system in 2012-13 and plans to complete documentation of procedures as part of its implementation of the new system.

4.0 PUBLIC EMPLOYEES BENEFITS AGENCY AND THE PENSION AND BENEFIT PLANS IT ADMINISTERS

The Public Employees Benefits Agency (PEBA) is part of the Ministry of Finance. PEBA administers government pension and benefits plans. For plans with years ended March 31, 2012, this includes the Judges of the Provincial Court Superannuation Plan, the Public Employees Pension Plan, the Public Service Superannuation Plan, the Saskatchewan Pension Annuity Fund, and the Saskatchewan Watershed Authority Retirement Allowance Plan.

PEBA recovers its cost 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, 2012, PEBA incurred \$15.1 million (2011 - \$14.0 million) in administration costs and recovered those costs from the plans. At March 31, 2012, PEBA held financial assets of \$2.7 million (2011 - \$2.0 million), non-financial assets of \$3.8 million (2011 - \$4.7 million) and had liabilities of \$6.6 million (2011 - \$6.7 million). PEBA's 2011-12 Annual Report includes the PEBA Revolving Fund's audited financial statements.



4.1 Implementation of Past Recommendations

The following table sets out our past recommendations indicating the status of each recommendation at March 31, 2012. It indicates whether PAC has considered the recommendation and if so, the results of its consideration, and the actions PEBA took during 2011-12.

Past Recommendation (Initial Report)	Status of Recommendation	Status of PAC consideration at September 30, 2012	Actions agency took in 2011-12
We recommended that the Public Employees Benefits Agency complete a business continuity plan for the pension and benefit plans it administers. (2008 Report – Volume 3)	Implemented	Agreement December 10, 2008	In 2011-12, PEBA tested its business continuity/disaster recovery plan.
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 <i>The Superannuation (Supplementary Provisions) Act (Act)</i> . Alternatively, the Board should seek changes to the act. (2001 Spring Report)	Implemented	Agreement November 27, 2001	In 2011-12, PSSB implemented 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 <i>The Superannuation (Supplementary Provisions) Act</i> .

5.0 EXHIBITS

5.1 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. Our intent is to follow up outstanding recommendations in upcoming reports.

PAC Report Year	Outstanding Recommendation	Status
Ministry of Finance (IT Governance)		
2011	7-3 that the Ministry of Finance develop an information technology risk management plan based on an analysis of information technology risks.	Partially Implemented (as of August 31, 2011)
2011	7-4 that the Ministry of Finance implement a strategic information technology plan that aligns with its strategic business objectives.	Partially Implemented (as of August 31, 2011)
Ministry of Finance (PST Audit Selection)		
2009	9-4 that the Ministry of Finance set the desired outcomes of the PST audit selection process in measurable terms.	Partially Implemented (as of September 16, 2011)

PAC Report Year	Outstanding Recommendation	Status
2009	9-8 that the Ministry of Finance require its senior management to receive reports on the effectiveness of the PST audit selection process.	Partially Implemented (as of September 16, 2011)
Public Employees' Benefits Agency (IT Security)		
2011	8-6 that the Public Employees Benefits Agency periodically test the effectiveness of its information technology security.	Partially Implemented (as of March 31, 2010)

5.2 Legislation

Exhibit 2—Summary of Relevant Authorities

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 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

Public Employees Pension Plan:

The Public Employees Pension Plan Act
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, 147.2, and 147.3
The Income Tax Regulations (Canada) sections: 8501-8505, 8512, 8514
The Tabling of Documents Act, 1991
 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
The Trustee Act, 2009
 Orders in Council issued pursuant to the above legislation

Judges of the Provincial Court Superannuation Plan:

The Financial Administration Act, 1993
The Pension Benefits Standards Regulations (Canada), 1985 (Schedule III)
The Provincial Court Act, 1998
The Provincial Court Compensation Regulations
The Provincial Court Pension Plan 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, and 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
The Tabling of Documents Act, 1991
 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 II)
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, and 8520
The Tabling of Documents Act, 1991
 Orders in Council issued pursuant to the above legislation

Saskatchewan Watershed Authority Retirement Allowance Plan:

The Financial Administration Act, 1993, sections 64 and 65
 Orders in Council issued pursuant to the above legislation
 Saskatchewan Watershed Authority Retirement Allowance Plan Document