Chapter 1
Public Accounts—General Revenue Fund

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 2013 Summary Financial Statements are reliable. The 2013 financial statements of the GRF are not reliable as they contain significant, material errors. When calculated in accordance with Canadian generally accepted accounting principles (Canadian GAAP), the GRF incurred an annual deficit of $590 million instead of the reported annual surplus of $58.0 million.

Saskatchewan continues to use both the Summary Financial Statements and the GRF for communicating to the public about "balanced budgets" and for reporting on the financial results of the Government. As previously outlined in both our *2012 Report – Volume 2* and our *2013 Special Report: The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan*, we maintain that the use of two sets of financial statements to discuss the finances of the Government causes confusion and is inappropriate.

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 Government of the Province of Saskatchewan Summary Financial Statements, the General Revenue Fund Financial Statements, and other information as required by a subcommittee of Cabinet (i.e., Treasury Board).

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 **Exhibit 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.

The **General Revenue Fund Financial Statements** compare actual spending against budgeted spending authorized by Appropriation Acts and other statutory spending authorities (Estimates). They also provide information on revenues primarily from taxes, non-renewable resources, and transfers from the federal government. As explained later in this chapter, these statements are not reliable in that they contain significant material errors.

3.0 Audit Conclusions and Scope

In our opinion, for the year ended March 31, 2013:

- **The Government's Summary Financial Statements included in the *2012-13 Public Accounts – Volume 1* are reliable. See Exhibit 2.**

- **The General Revenue Fund financial statements included in the *2012-13 Public Accounts – Volume 1* are not reliable. See Exhibit 3.**

4.0 Key Findings and Recommendation

In this section, we outline key observations from our audits and the resulting recommendation.

4.1 GRF Financial Statements Not Reliable

Use of Canadian public sector generally accepted accounting principles (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 3**, for the first time, the Provincial Auditor's audit opinion on the 2013 GRF financial statements is an "Adverse Opinion." The Provincial Auditor has issued this adverse opinion because of the following. The GRF financial statements are materially misstated due to departures from Canadian GAAP. Those material misstatements (errors) are pervasive to the financial statements in that a reader cannot easily adjust for them. The financial statements do not present an accurate financial position and performance of the GRF.

"Adverse" audit opinions are rare and should cause concern for legislators and the public. The audit opinion advises 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.

For the year ended March 31, 2013, the GRF reported an annual surplus of $58.0 million and an accumulated deficit of $102 million. If the GRF financial statements had been prepared correctly in accordance with Canadian GAAP, they would have reported an annual deficit of $590 million and an accumulated deficit of $6.34 billion.

The errors identified in the audit report and **Figure 1** mean some information presented in the various statements, notes, and schedules in the GRF financial statements are incorrect. **Figure 1** compares, by line item, the amount reported in the GRF statements of financial position and operations against the amount that should have been reported. It notes the difference and reason for the difference.

Figure 1—Impact of Errors on the GRF Financial Statements for the Year Ended March 31, 2013

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	$3.28 billion	$3.95 billion	$666 million (understated)	Unrecorded "Due from Growth and Financial Security Fund"
Total Liabilities	$7.11 billion	$13.94 billion	$6.83 billion (understated)	Unrecorded pension and a disability plan debt, and unrecorded funding of certain school division, RHA, university debt
Net Debt	$3.83 billion	$9.99 billion	$6.164 billion (understated)	Net impact of not recording the above amounts
Total Non-Financial Assets	$3.72 billion	$3.65 billion	$69.0 million (overstated)	Impact of use of shared ownership model
Accumulated Deficit	$102 million	$6.34 billion	$6.23 billion (understated)	Net impact of not recording the above amounts
Statement of Operations				
Total Expense	$11.41 billion	$12.02 billion	$606 million (understated)	Unrecorded pension and a disability plan costs, unrecorded funding of certain debt, and use of shared ownership model for current year
Transfer to the Growth and Financial Security Fund	$8.0 million	$ -	$8.0 million (overstated)	Inappropriately including transfer as an expense
Transfer from the Growth and Financial Security Fund	$50.0 million	$ -	$50.0 million (overstated)	Inappropriately including transfer as a revenue
Annual Surplus (Deficit)	$58.0 million – surplus	$590 million – deficit	$648 million (overstated)	Net impact of above errors on current year

The GRF statements are materially incorrect in the following four areas:

1. Continued use of inappropriate accounting policies to account for pension costs

The GRF inappropriately accounts for pension costs on a cash basis (i.e., recognizes expense only when payment is made). It therefore does not publicly discuss that there is a $6.56 billion pension and disability benefit liability (2012-$6.124 billion) in Saskatchewan. Significant cash will be required in the future to cover annual payments to pensioners and individuals on long-term disability (primarily teachers' pensions). The Government acknowledges in the notes to the GRF financial statements that its accounting for pension costs does not comply with the requirements of Canadian GAAP.

2. **Continued use of inappropriate accounting policies to account for transfers between the GRF and the Growth and Financial Security Fund (GFSF)**[1]

The GRF treated net transfers of $42 million between the GRF and the GFSF as revenue of the GRF. These transfers inappropriately increased the 2012-13 bottom line of the GRF by $42 million. It also results in the Government not recording investments of $666 million held by the GFSF on behalf of the GRF in the GRF statements.

The substance of these transactions between the GFSF and the GRF is that the amounts held by the GFSF must be repaid by the GFSF to the GRF. The Government acknowledges in the notes to the GRF financial statements that its accounting for transfers between the GRF and GFSF does not comply with the requirements of Canadian GAAP.

3. **Obligations to fund certain long-term debt not yet recorded**

During our audit, we identified four ministries (Advanced Education, Health, Education, and Environment) that have established practices of providing certain agencies (i.e., post-secondary educational institutions, regional health authorities, school divisions, Water Security Agency) with funding (money) to enable these agencies to repay the principal and interest due on some of their loans. Instead of providing money to these agencies during the development of certain capital projects, the Government decided to let the agency borrow money from a financial institution and then provide the agency with money to pay the principal and interest on these loans as they come due. These agencies rely on this money to repay their loans, and the Government has created an expectation or guarantee that it will provide these agencies with sufficient money to repay the principal and interest on these loans.

Canadian GAAP requires transactions to be accounted for based on their substance. As such, loans expected to be repaid through future government funding should be accounted for as a liability and expense in the year that the expectation or promise is made.

The GRF inappropriately accounts for these funding arrangements on a “pay-as-you-go” basis instead of on an accrual basis. The Government did not record liabilities and the related 2012-13 capital transfers of $270.1 million and $100.9 million, respectively, in the GRF financial statements. Not recording these transfers increased the reported 2012-13 annual surplus of the GRF by $100.9 million.

4. **Assets constructed under Shared Ownership Agreements incorrectly recorded**

During 2012-13, the ministries of Health and Education each entered into contractual agreements for certain capital projects[2] with seven regional health authorities and seven school divisions. It calls these arrangements shared ownership agreements. The Government argues that under these agreements, ministries own the majority of the facility being built. It based its share of ownership on the proportion of funding it provided as compared to the expected overall cost of the project. Instead of recording its funding for these capital projects as capital transfers (expenses) as done prior to

[1] The Growth and Financial Security Fund was established on May 14, 2008 under *The Growth and Financial Security Act*. This Fund replaced previous “rainy day” funds. For further information on the Government’s use of rainy day funds, refer to our *April 2013 Report of the Provincial Auditor – The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan*.
[2] Projects that buy or construct capital assets such as land, buildings, and equipment.

entering into the agreements and for other approved capital projects, the Government recorded its funding of $69.5 million as tangible capital assets of the GRF.[3] Our Office disagrees with the accounting for these projects based on the following rationale.

Under Canadian GAAP, to capitalize a tangible capital asset, one must control the risks and benefits of the asset.[4] The risks and benefits of the ongoing use of the facility being constructed that each Ministry obtains from these arrangements remain substantially unchanged from facilities solely owned by health authorities/school divisions. Health authorities and school divisions continue to substantially bear the risks and benefits of ownership. These facilities are specifically designed to deliver healthcare or educational services and their intended use is not easily changed. Health authorities and school divisions will use these facilities in the delivery of their services. The related ministry remains a major source of capital for such facilities and a major source of maintenance funding for them. Further, as noted above, the related ministry remains a source of funding to assist in the repayment of health authorities' or school divisions' borrowings related to capital projects.

The Government uses its ministries as its vehicle to exercise control over the agencies involved in the shared ownership agreements. Given the relationship between its ministries and these agencies, we do not think it is feasible to partition the risks and benefits associated with the ownership of facilities between the applicable Ministry and the health authority/school division. Furthermore, directly equating the amount of funding provided by each party to the risks and rewards of ownership cannot be substantiated.

At the direction of the Government, the seven regional health authorities involved in shared ownership agreements incorrectly recorded funding received from the Ministry of Health in their 2012-13 financial statements, resulting in them understating capital assets and capital grant revenue in their financial statements. The appointed auditors of the regional health authorities also disagree with the accounting for these projects for the same reasons as our Office. For six of these authorities, their appointed auditor issued a qualified audit report on the authority's 2012-13 financial statements that highlights the impact of this error on the statements. For one authority, the impact of error on the authority's 2012-13 financial statements was determined to be insignificant. At October 31, 2013, the audits of the 2012-13 financial statements of the seven school divisions involved with shared ownership agreements were not complete.

The GRF incorrectly recorded $69.5 million as tangible capital assets and did not record this amount as capital transfers expense. Not recording these transfers increased the reported GRF 2012-13 surplus by $69.5 million.

Use of Canadian GAAP is necessary so that the GRF financial statements accurately reflect the costs of GRF programs and decisions.

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[3] $69.5 million is comprised of $42.3 million related to regional health authorities and $27.2 million related to school divisions.
[4] Risks of owning an asset would include being responsible for the costs of ownership (e.g., insurance coverage, maintenance, and the impact of asset not being able to provide services). Benefits of owning an asset include use of assets to provide services directly (e.g., using it to provide health services) or to generate revenue (e.g., rental income).

1. **We recommend that the Government use Canadian generally accepted accounting principles for the public sector to prepare the General Revenue Fund's financial statements.**

5.0 Exhibits

Exhibit 1—The Composition of the Government of Saskatchewan at March 31, 2013

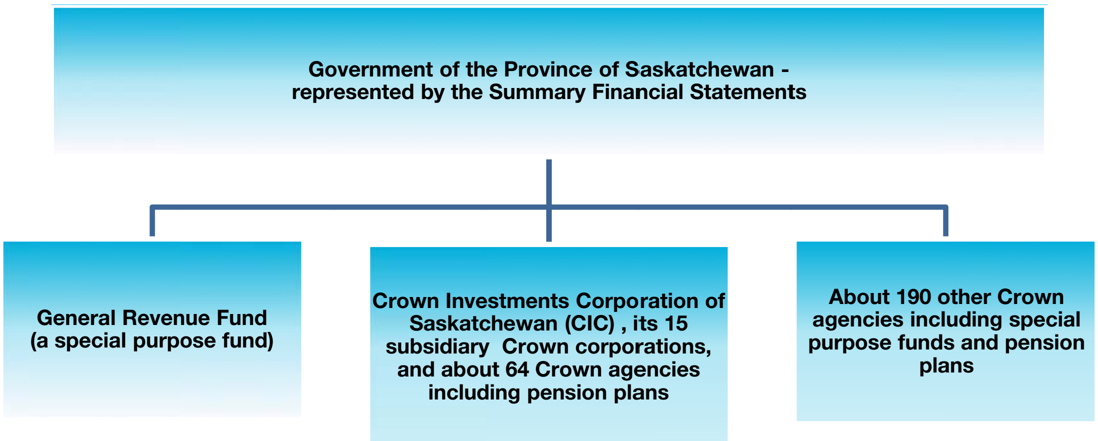

Exhibit 2—Auditor's Report on 2012-13 Summary Financial Statements

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, 2013, 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, 2013, and the results of its operations, 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 13, 2013

Exhibit 3—Auditor's Report on 2012-13 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, 2013, 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.

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

Basis for Adverse 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 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 $6,560 million (2012 - $6,124 million) as at March 31, 2013 and, for the year, expenses would increase by $436 million (2012 - $100 million), and the surplus would decrease by the same amount.

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 held by 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 $8 million (2012 - $27 million) and a revenue (as a Transfer from the GFSF) of $50 million (2012 - $325 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 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 net amount paid to the GFSF. Had the Government properly recorded the transactions, total financial assets would increase by $666 million (2012 - $708 million) and accumulated deficit would decrease by the same amount as at March 31, 2013, and surplus for the year would decrease by $42 million (2012 - decrease by $298 million).

3. The Government, through the General Revenue Fund, has established a practice of providing funding primarily to school divisions, regional health authorities, and universities, to enable them to repay certain of their loans with financial institutions. In substance, the General Revenue Fund has assumed the obligation to fund the principal and interest payments related to this debt. Canadian public sector accounting principles require transactions to be accounted for based on their substance and that loans expected to be repaid through future government funding to be accounted for as a liability and expense in the year that the expectation or promise is made.

   Had these obligations been recorded properly, accumulated deficit as at April 1, 2012 would increase by $169 million, liabilities and accumulated deficit as at March 31, 2013 would increase by $270 million, current year expenses would increase by $101 million, and the current year surplus would decrease by the same amount.

4. During 2012-13, the Government recorded the General Revenue Fund's financial contribution of $69 million to the construction of schools and long-term care facilities as tangible capital assets of the General Revenue Fund. These schools and long-term care facilities are being constructed under agreements between the Government and certain school divisions and regional health authorities. These agreements have not changed the substance of how the Government funds these types of capital assets. These assets continue to be held by the related school division and regional health authority. Canadian public sector accounting principles require transactions to be accounted for based on their substance.

   Had the General Revenue Fund recorded its financial contributions properly, tangible capital assets would decrease and accumulated deficit would increase by $69 million at March 31, 2013, current year expenses would increase by $69 million, and the surplus would decrease by the same amount.

Adverse Opinion

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, the financial statements do not present fairly the financial position of the General Revenue Fund as at March 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Restriction on Use and Usefulness of these Financial Statements is Limited

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 are not suitable for another purpose. These financial statements contain significant departures 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 $6,249 million (2012 - $6,105 million); total liabilities increase by $7,533 million (2012 - $7,088 million); net debt increases by $1,284 million (2012 - $983 million); total non-financial assets increase by $3,835 million (2012 - $3,747 million); accumulated deficit decreases by $2,551 million (2012 - $2,764 million); total revenue including net income from government business enterprises increases by $2,848 million (2012 - $2,161 million); total expense increases by $2,869 million (2012 - $2,618 million); and the annual surplus decreases by $21 million (2012 - $457 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.

BONNIE LYSYK, MBA, CA
Provincial Auditor

Regina, Saskatchewan
June 18, 2013

6.0 Glossary

Accumulated deficit – the sum of the net debt of the government and its non-financial assets or alternatively, 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 financial plan whereby planned total expenses for the fiscal period(s) are equal or less than the planned total revenue for the same fiscal 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 – a transfer of money from a government to an individual, an organization, or another government or government agency 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.