

Chapter 3 Agriculture

1.0 MAIN POINTS

This chapter reports the results of the annual audits of the Ministry of Agriculture (Agriculture), its agencies, and special purpose funds for the year ended March 31, 2013.

Agriculture, its three agencies, and six special purpose funds complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. The 2013 financial statements of Agriculture's agencies and special purpose funds are reliable except the 2013 financial statements of the Prairie Agricultural Machinery Institute (PAMI) are not yet complete.¹

Agriculture, its agencies, and the Saskatchewan Agriculture Stabilization Fund had effective rules and procedures to safeguard public resources except Agriculture needs to improve its process for preparing the AgriStability estimate and obtain adequate assurance from the Information Technology Office of the Ministry of Central Services over Agriculture's computer systems and data.

Agriculture has made some progress in addressing our other past recommendations.

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.²

2.1 Financial Overview

In 2012-13, Agriculture recorded revenues of \$165.1 million (2012 - \$144.5 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 any differences from its approved budget.³ Also, at March 31, 2013, Agriculture held agricultural lands, buildings, and equipment with a net book value of \$69.7 million.

Agriculture provides significant funding to others (e.g., \$406.7 million to Saskatchewan Crop Insurance Corporation for the crop insurance, excess moisture, and AgriStability programs). At March 31, 2013, Agriculture had 440 employees.⁴

¹ At October 31, 2013, Treasury Board had not yet approved the format of the financial statements for Prairie Agriculture Machinery Institute for the year ended March 31, 2013 and therefore we have not issued our audit opinion.

² Ministry of Agriculture, *Ministry Plan for 2012-13*, p. 2.

³ www.agriculture.gov.sk.ca/ministry-overview (9 October 2013).

⁴ Government of Saskatchewan, *Ministry of Agriculture, 2012-13 Annual Report*, p. 5.



Figure 1 – Major Programs and Spending

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Central Management and Services	\$ 10.9	\$ 10.2
Policy and Planning	3.7	3.5
Research and Technology	20.4	20.0
Regional Services	41.9	35.6
Land Management	6.6	5.8
Industry Assistance	5.4	5.2
Irrigation and Water Infrastructure	9.6	8.0
Financial Programs	8.8	7.0
Business Risk Management	<u>321.4</u>	<u>406.7</u>
Total Appropriation	428.7	502.0
Capital Asset Amortization	<u>2.1</u>	<u>2.1</u>
Total Expenses	\$ 430.8	\$ 504.1

Source: 2012-13 Ministry of Agriculture Annual Report

*During the year, Agriculture obtained additional funding through a special warrant of \$43.2 million.

2.2 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 the following funds and agencies has a March 31 year-end:

Special Purpose Funds (Funds)

- Agricultural Implements Board
- Crop Reinsurance Fund of Saskatchewan
- Horned Cattle Fund
- Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund
- Livestock Services Revolving Fund
- Pastures Revolving Fund
- Saskatchewan Agricultural Stabilization Fund

Crown Agencies (Agencies)

- Agricultural Credit Corporation of Saskatchewan
- Prairie Agricultural Machinery Institute
- Saskatchewan Crop Insurance Corporation
- Saskatchewan Grain Car Corporation

3.0 AUDIT CONCLUSIONS AND SCOPE

To complete our audits, we worked with the appointed auditor of a fund and certain agencies, as noted in **Figure 2**, using the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.⁵

Figure 2—Special Purpose Funds and Crown Agencies with an Appointed Auditor

Agency	Appointed Auditor (at March 31, 2013)
Saskatchewan Agricultural Stabilization Fund	KPMG LLP
Agricultural Credit Corporation of Saskatchewan	MNP LLP
Saskatchewan Grain Car Corporation	Skilnick Miller Moar Grodecki & Kreklewich

We reported on the results of our audits of the Saskatchewan Crop Insurance Corporation and Crop Reinsurance Fund of Saskatchewan in Chapter 20.

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

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

The Agri-Food Act, 2004
The Agri-Food Regulations, 2004
The Agricultural Credit Corporation of Saskatchewan Act
The Agricultural Credit Corporation of Saskatchewan Regulation, 1989
The Agriculture Implements Act
The Agriculture Implements Regulations, 1982
The Animal Identification Act
The Animal Products Act
The Brand Regulations
The Crop Insurance Act
The Crop Insurance Amendment Regulations, 2012 (No. 2)
The Department of Agriculture, Food and Rural Revitalization Act
The Ministry of Agriculture Regulations, 2007
The Farm Financial Stability Act
The AIDA and SFIP Program Regulations
The Canada Saskatchewan Specified Risk Material Management Program Regulations
The Cattle Breeder Associations Loan Guarantee Regulations, 1991
The Cattle Feeder Associations Loan Guarantee Regulations, 1989
The Excess Moisture Program Regulations, 2011
The Farm and Ranch Water Infrastructure Program Regulations

The Horned Cattle Purchases Act
The Horned Cattle Purchases Regulations, 1983
The Intensive Livestock Operations Environmental Rehabilitation Program Regulations
The Livestock Dealer Regulations, 1995
The Livestock Inspections and Transportation Regulations, 1978
The 2011 Saskatchewan Feed and Forage Program Regulations
The Short-term Hog Loan Regulations, 2008
The Short-term Cattle Loan Program Regulations
The Wildlife Damage and Livestock Predation Regulations
The Financial Administration Act, 1993
The Government Organization Act
The Irrigation Act, 1996
The Pastures Act
The Pastures Regulations
The Prairie Agricultural Machinery Institute Act, 1999
The Prairie Agricultural Machinery Institute Regulations, 1999
The Provincial Lands Act
The Provincial Lands Regulations
The Public Service Act, 1998
The Purchasing Act, 2004
 Contracts and Orders in Council issued pursuant to the above legislation

⁵ See our website at www.auditor.sk.ca.



- › **The financial statements of the funds and agencies are reliable, except the financial statements of the Prairie Agriculture Machinery Institute are not yet complete**

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of Agriculture'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 the 2012-13 audits, we examined the effectiveness of Agriculture's financial-related controls used to administer its 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:

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

4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we outline key observations from our assessments and the resulting recommendations.

4.1 Year-End Estimate Process Needs Refinement

We recommended that the Ministry of Agriculture use the most current information when estimating program expenses. (2011 Report – Volume 2; Public Accounts Committee agreement April 10, 2013)

Status – This recommendation was replaced by the following more comprehensive recommendation that we made in our *2013 Report – Volume 1*, Chapter 7.

We recommended that the Saskatchewan Crop Insurance Corporation work with the Ministry of Agriculture to develop processes to ensure that the annual fiscal year-end estimates for AgriStability program benefits are reasonable, consistent, and current. (2013 Report – Volume 1; Public Accounts Committee has not yet considered this recommendation)

Status – Not Implemented

For the AgriStability program, the deadline for producers to submit program forms is September 30, which is after Agriculture's March 31 year-end. Also, the program allows producers to amend their submissions for up to two years after the September 30 deadline. Given the program deadline and ability for producer amendments, at March 31, 2013, Agriculture had complete information for only a few producers when making its estimate of the amount it owed for benefit payments at year-end. At March 31, 2013 Agriculture estimated that it owed \$88 million of benefit payments.

Agriculture relies on the federal government's model for determining the total estimated expenses even though it is aware that the federal government's model has not provided reasonably accurate results in the past. Agriculture has not conducted sufficient alternative procedures to refine the accuracy of the federal estimates or adequately documented its procedures for reviewing the assumptions made in the calculation of the estimates. In part because of these deficiencies in Agriculture's processes to make these estimates, Agriculture's March 31 estimates have fluctuated significantly since the inception of the AgriStability program. For example, **Figure 3** presents a four-year history of these program expenses and the change in each estimate in the following year.

Agriculture works with Saskatchewan Crop Insurance Corporation (SCIC) to calculate its share of the program benefits for AgriStability and to complete the schedules required for completion of the General Revenue Fund financial statements. Agriculture and SCIC both need information that is consistent and reflects the most current information available.

Without good processes to estimate the AgriStability liability and expenses, there is a risk that the General Revenue Fund financial statements and the Summary Financial Statements may not be correct. Agriculture needs to work with SCIC to ensure its processes accurately estimate the expenses and liability at March 31 each year.

Figure 3—Four-Year History of AgriStability Program Expenses

Year	Total AgriStability Expense Recorded in Fiscal Year (in millions)	Overstatement or (Understatement) of Recorded Expense (in millions)	Percentage change to Initial Expense Recorded
2009-10	\$ 96.9	\$ 48.2	50%
2010-11	109.3	4.7	4%
2011-12	40.6	(35.6)	(88)%
2012-13	145.3	Not yet available	N/A

Source: Ministry of Agriculture accounting records



4.2 Senior Management Approval of Accounting Estimates Documented

We recommended 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.

(2011 Report – Volume 2; Public Accounts Committee agreement April 10, 2013)

Status – Implemented

Agriculture has improved its documentation of senior management approval of accounting estimates by implementing a cover page with the estimates where senior management must sign off indicating their review and approval.

4.3 Cash Receipts from Land Sales Monitored

We recommended that the Ministry of Agriculture develop processes to track cash receipts from land sales. (2011 Report – Volume 2; Public Accounts Committee agreement April 10, 2013)

Status – Implemented

During 2012-13, Agriculture developed and implemented processes to track cash receipts from land sales. A system-generated report is created monthly to track payments received late and a reconciliation is performed.

4.4 Disaster Recovery Plans Tested

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 – Implemented

In July 2011, Agriculture signed a new memorandum of understanding with its information technology (IT) service provider, the Information Technology Office of the Ministry of Central Services (ITO). In November 2012, Agriculture approved a new 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 less than one week after an interruption in order for Agriculture to continue with its business operations.

In 2012-13, Agriculture created and tested disaster recovery plans (DRPs) for its three critical systems. These systems are the Livestock Information Management System (LIMS), Crown Land Management System (CLMS), and SalesLogic.

4.5 ITO Assurance on Operating Effectiveness Needed

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 – Partially Implemented

During 2012-13, Agriculture continued to work with ITO to obtain information about the quality of ITO's controls over Agriculture's computer systems and data. During 2012-13, Agriculture did not receive such assurance. An example of the information that Agriculture did not receive is a report on the patching completed on computer servers. Without this information, Agriculture is not aware of the extent to which its IT applications hosted by ITO are subject to vulnerabilities such as security threats.

