

Chapter 5

Economy

1.0 MAIN POINTS

This chapter reports the results of our audit of the Ministry of the Economy (Economy). Economy combines the former Ministry of Energy and Resources, Enterprise Saskatchewan, the economic development components of First Nations and Métis Relations, and certain labour force development components of the former Ministry of Advanced Education, Employment and Immigration.

Economy, its two agencies, and three 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 Economy's Crown agencies and its special purpose funds are reliable. Economy and its Crown agencies had effective rules and procedures to safeguard public resources except where Economy needs to:

- › Improve information technology (IT) processes to promptly remove unneeded user access
- › Sign a complete memorandum of understanding with the Ministry of Advanced Education to avoid misunderstandings pertaining to shared services with respect to the One Client Service Module, labour market-related statistical data and research, and client and administrative services for the Provincial Training Allowance
- › Properly record, in its financial records for inclusion in the Government's financial statements, its environmental liabilities for the cleanup of:
 - The Gunnar Uranium Mine and Mill Site
 - Orphaned oil and gas wells and their related facilities

2.0 INTRODUCTION

Economy is responsible for leading and coordinating growth in Saskatchewan by working with other ministries, stakeholders, and the general public to keep Saskatchewan moving forward. Economy comprises three primary lines of business: enhance economic growth and competitiveness; regulate responsible resource development; and attract, develop, and retain a skilled workforce.¹

¹ Ministry of the Economy, *Plan for 2013-14*, p. 3, 5, and 6.



2.1 Special Purpose Funds and Crown Agencies

At March 31, 2013, Economy was responsible for the following special purpose funds and Crown agencies. Each one has a March 31, 2013 year end.

Special Purpose Funds (Funds)

Oil and Gas Orphan Fund

Institutional Control Monitoring and Maintenance Fund

Institutional Control Unforeseen Events Fund

Crown Agencies (Agencies)

Enterprise Saskatchewan

Tourism Saskatchewan

2.2 Financial Overview

In 2012-13, Economy collected \$1.99 billion in revenues, including \$66.11 million from the federal government for its labour market and development programs (see **Figure 1**). It spent \$272.9 million to deliver its programs and services (see **Figure 2**). Information about the Ministry's revenues and expenses appear in its *2012-13 Annual Report*.²

Figure 1 – Revenues

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Oil	\$ 1,600.9	\$ 1,283.9
Crown Land Sales	220.0	89.1
Natural Gas	12.5	11.4
Potash	705.2	364.5
Other Minerals	123.8	139.4
Enterprise Saskatchewan	0.5	1.2
First Nations and Métis Relations	0.1	0.1
Transfers from federal government	62.1	66.1
Employment and Immigration – Other Revenue	1.9	5.4
Other Own-Source Revenue	<u>44.3</u>	<u>28.9</u>
Total Revenues	<u>\$ 2,771.3</u>	<u>\$ 1,990.0</u>

Source: Ministry of the Economy, *12-13 Annual Report*, p. 46

² See www.economy.gov.sk.ca (21 October 2013).

Figure 2—Major Programs and Spending

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Central Management and Services	\$ 28.2	\$ 31.4
Revenue and Planning	30.5	29.4
Economic Development	3.3	9.1
Tourism Saskatchewan	16.5	16.5
Labour Market Development	160.8	156.8
Enterprise Saskatchewan	33.1	16.0
Petroleum and Natural Gas	9.3	9.8
Minerals, Lands and Policy	11.9	10.6
Total Appropriation	293.6	279.6
Capital Asset Acquisition	(7.9)	(6.9)
Capital Asset Amortization	2.8	0.2
Total Expenses	\$ 278.5	\$ 272.9

Source: Ministry of the Economy, *12-13 Annual Report*, p. 43-44

3.0 AUDIT CONCLUSIONS AND SCOPE

To complete our audit of Tourism Saskatchewan, our Office worked with MNP LLP, the appointed auditor. We followed the framework of the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.³

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

- › **Economy and its agencies had effective rules and procedures to safeguard public resources except for the matters described in this chapter**
- › **Economy, its agencies, and its funds complied with the authorities, listed in Exhibit 5.1, governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- › **The financial statements of Economy's agencies and funds are reliable**

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgements about the effectiveness of Economy'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.

Assessing Economy's and its agencies' rules and procedures to safeguard public resources included evaluating their financial controls for estimating and collecting revenues and administering spending. In addition, we evaluated their controls around significant IT systems and processes for collecting revenues and keeping reliable financial records.

³ See our website at www.auditor.sk.ca.



4.0 KEY FINDINGS AND RECOMMENDATIONS

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

4.1 Prompt Removal of User Access Needed

We recommended that the Ministry of the Economy (formerly, Ministry of Energy and Resources) follow its established procedures for removing user access to its computer systems and data. (2011 Report – Volume 2; Public Accounts Committee agreement October 4, 2012)

Status – Not Implemented

During the year, we noted 10 instances where Economy had not removed unneeded user access on a timely basis. Economy needs to consistently follow its procedures for ensuring only authorized staff have access to its computer systems and data.

Unless it consistently follows its established procedures for promptly removing unneeded user access, Economy cannot ensure that only authorized individuals have access to its computer systems and data. As a result, Economy risks inappropriate access to confidential information and the loss of public money.

4.2 Shared Service Agreement Needed

Economy does not have an effective shared service agreement with the Ministry of Advanced Education for shared services with respect to the One Client Service Module, labour market-related statistical data and research, and client and administrative services for the Provincial Training Allowance.

The *Financial Administration Manual* section 3007.08, requires that shared service arrangements between ministries be supported by a memorandum of understanding. While a memorandum was signed between the ministries in June 2013, work continues on the memorandum to address governance and good business practices. A complete memorandum is necessary so that both ministries understand their respective roles and responsibilities.

- 1. We recommend that the Ministry of the Economy sign a complete memorandum of understanding with the Ministry of Advanced Education that defines all key roles and responsibilities for shared services.**

4.3 Disclosure Needed of the Environmental Liability for the Gunnar Uranium Mine and Mill Site

Economy does not properly disclose its liability for the cleanup of the Gunnar Uranium Mine and Mill Site (Gunnar Mine).

Economy is responsible for the cleanup of two northern uranium mines. In 2006, Economy and the federal government signed an agreement committing each party to pay 50% of the cleanup costs for the Gunnar Mine. In 2007, Economy signed an agreement with Encana Corporation⁴ in which Economy accepted responsibility for the cleanup costs for the Lorado Mine and Mill Site (Lorado Mine) in return for a one-time payment of \$23 million.

The Gunnar Mine is located on Lake Athabasca near Uranium City. The Lorado Mine is located on Nero Lake and is also near Uranium City. These mines closed many years ago but they continue to pose significant concerns to the environment and to public health and safety.

Economy properly accounts for the cleanup costs for the Lorado mine. The remaining cleanup costs are estimated to be \$21 million and Economy recorded this amount in its financial information that was included in the Government of Saskatchewan's March 31, 2013 financial statements.

Although Economy has accepted responsibility for its share of the cleanup costs of the Gunnar Mine, it does not properly disclose its liability. As of March 31, 2013, the Ministry could not make a reasonable estimate of the cleanup costs. This is because the Canadian Nuclear Safety Commission has not yet approved the Gunnar Mine Environmental Impact Statement and the cleanup options are complex. When a reasonable estimate cannot be made, Public Sector Accounting Standards requires Economy to disclose information about the nature of the liability together with the reason(s) why a reasonable estimate cannot be made.⁵ Economy did not disclose this information in its financial records (i.e., its *2012-13 Annual Report* and its General Revenue Fund accrual schedules). Such disclosure provides information about the potential effect on the Government's financial statements when the liability becomes measurable.

2. We recommend that the Ministry of the Economy disclose its liability for the cleanup of the Gunnar Uranium Mine and Mill Site in accordance with Public Sector Accounting Standards.

⁴ Encana Corporation is a North American energy producer of natural gas, oil and natural gas liquids. The corporate headquarters are in Calgary, Alberta.

⁵ Public Sector Accounting Standard: PS 3200.30 Liabilities.



4.4 Recording the Environmental Liability for Orphaned Wells and Facilities Needed

We recommended that the Ministry of the Economy estimate and record its liability for cleaning up orphaned wells and facilities in its financial records for inclusion in the Government's financial statements. (2012 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation)

Status – Not Implemented

Economy is responsible for the cleanup of oil and gas wells and related facilities when well owners (licensees) cease to exist or can no longer be located. In our *2012 Report – Volume 2*, Chapter 31, we reported on the Ministry's three programs to manage the risks associated with the cleanup of orphaned wells and facilities. We made six recommendations including the recommendation for the Ministry to estimate and record its liability for the cleanup of orphaned wells and facilities.

For the fiscal year ended March 31, 2013, the Ministry did not estimate and record its liability for the cleanup of orphaned wells and facilities.

On October 30, 2013, the Ministry provided us with a position paper that states the liability for orphaned wells resides with the oil and gas industry and not with the Ministry. We will review this position paper and report on our findings in a future report.

5.0 EXHIBIT

5.1 Legislation—Summary of Relevant Authorities

<i>The Crown Minerals Act</i>	<i>The Oil and Gas Conservation Regulations, 1985</i>
<i>The Crown Oil and Gas Royalty Regulations</i>	<i>The Surface Rights Acquisition and Compensation Act</i>
<i>The Crown Corporations Act</i>	<i>The Pipelines Act, 1998</i>
<i>The Coal Disposition Regulations, 1988</i>	<i>The Reclaimed Industrial Sites Act</i>
<i>The Petroleum and Natural Gas Regulations, 1969</i>	<i>The Reclaimed Industrial Sites Regulations</i>
<i>The Mineral Disposition Regulations, 1986 (Crown Mineral Royalty Schedule)</i>	<i>The Forest Resources Management Act, Section 5</i>
<i>The Delayed Payment Charge Regulations, 1970</i>	<i>The Financial Administration Act, 1993</i>
<i>The Subsurface Mineral Regulations, 1960</i>	<i>The Government Organization Act</i>
<i>The Energy and Mines Act</i>	<i>The Purchasing Act</i>
<i>The Mineral Exploration Incentive Regulations</i>	<i>The Revenue and Financial Services Act</i>
<i>The Economic and Co-operative Development Act (Section 8(a) only)</i>	<i>The Tabling of Documents Act, 1991</i>
<i>The Freehold Oil and Gas Production Tax Act, 2010</i>	<i>The Petroleum Research Incentive Regulations</i>
<i>The Freehold Oil and Gas Production Tax Regulations, 1995</i>	<i>The Culture and Recreation Act, 1993</i>
<i>The Recovered Crude Oil Tax Regulations</i>	<i>The Human Resources, Labour and Employment Act</i>
<i>The Multiculturalism Act</i>	<i>The Labour-Sponsored Venture Capital Corporations Regulations</i>
<i>The Ethanol Fuel Act</i>	<i>The Ethanol Fuel (Grants) Regulations</i>
<i>The Labour-Sponsored Venture Capital Corporations Act</i>	<i>The Vocational Rehabilitation of Disabled Persons Program Regulations</i>
<i>The Renewable Diesel Act</i>	<i>The Tourism Saskatchewan Act</i>
<i>The Small Business Loans Association Program Regulations</i>	<i>The Enterprise Saskatchewan Act</i>
<i>The Mineral Resources Act, 1985</i>	<i>The Department of Agriculture, Food and Rural Revitalization Act</i>
<i>The Mineral Taxation Act, 1983</i>	<i>The Department of Rural Development Act</i>
<i>The Potash Production Tax Regulations</i>	<i>The Northern Saskatchewan Economic Development Act</i>
<i>The Freehold Coal Production Tax Regulations</i>	<i>The Rural Development Act</i>
<i>The Oil and Gas Conservation Act</i>	Orders in Council issued pursuant to the above Legislation