

Chapter 9

Finance

1.0 MAIN POINTS

This chapter reports the results of our annual audit of the Ministry of Finance (Finance) and six agencies with March 31 year-ends. Finance and these agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. The 2013 financial statements of these agencies are reliable. Finance and these agencies had effective rules and procedures to safeguard public resources except for the items noted below.

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 finish developing and implement improved processes to record resource surcharge revenues so that revenue is recorded in the proper period. Also, it needs to estimate how much corporate income tax revenue could reasonably vary from the estimate it recorded to make its estimation process more robust.

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

During the year, Finance set a market-based benchmark for its sinking fund investments to help it evaluate whether it earned an effective return on these investments. It reported the results of this evaluation to senior management, but had not yet publicly reported this information. It also had not yet completed the documentation of its treasury management procedures.

2.0 INTRODUCTION

Finance helps the Government manage and account for public money. Its mandate is to provide options and advice to 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, and 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. Each of the funds and agencies (except for the Growth and Financial Security Fund²) provides 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 GRF. This chapter includes the results of other agencies with a March 31 year-end (agencies).

¹ Ministry of Finance, *2012-13 Annual Report*, (2013).

² This Fund does not prepare financial statements and is not legally required to do so. Our Office audits the activities of this Fund in conjunction with the audit of the General Revenue Fund.

2.2 Financial Overview

For the year ended March 31, 2013, Finance administered revenues of \$8.7 billion (2012 - \$8.0 billion), spent approximately \$0.9 billion (2012 - \$0.8 billion), and managed gross public debt of \$11.3 billion (2012 - \$10.9 billion) and investments in sinking funds of \$1.8 billion (2012 - \$2.6 billion).³ **Figure 1** compares actual revenue to budget by major type of revenue, **Figure 2** compares actual spending to budget by program, and **Figure 3** compares actual spending to budget by object.

Finance's annual report explains significant differences between actual and budgeted revenues and expenses.⁴

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

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Taxation	\$ 5,314.4	\$ 5,598.0
Non-renewable resources–resource surcharge	485.9	627.7
Transfers from government entities	618.1	859.0
Other own-source revenue	314.5	352.4
Transfers from the federal government	<u>1,276.8</u>	<u>1,311.0</u>
Total	\$ <u>8,009.7</u>	\$ <u>8,748.1</u>

Source: Saskatchewan Provincial Budget 12-13 Estimates (votes 12 and 18); Ministry of Finance 2012-13 financial records.

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

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Public service pension and benefits	\$ 283.5	\$ 461.8*
Revenue division	26.2	26.6
Research and development tax credit	15.0	24.9
Provincial comptroller	12.3	11.1
Central management and services	6.4	6.3
Budget analysis	5.0	5.0
Treasury and debt management	2.3	1.9
Personnel policy secretariat	0.5	0.4
Miscellaneous	<u>0.1</u>	<u>0.2</u>
Total Appropriation – Vote 18	351.3	538.2
Capital asset acquisitions	(0.6)	(1.6)
Amortization of capital assets	1.2	1.4
Total expense – Vote 18	<u>351.9</u>	<u>538.0</u>
Debt servicing appropriation and expense – Vote 12	<u>400.0</u>	<u>390.8</u>
Total expense – Finance	\$ <u>751.9</u>	\$ <u>928.8</u>

Source: Saskatchewan Provincial Budget 12-13 Estimates (votes 12 and 18); Ministry of Finance 2012-13 financial records. *Public Accounts 2012-13 Volume 2 Details of Revenue and Expense*

* 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 \$285.3 million. Using the accrual basis of accounting for the year ended March 31, 2013, the actual expense was \$461.8 million (restated to include \$176.5 million of unrecorded pension costs of the Public Service Superannuation Plan).

³ Government of Saskatchewan, *2012-13 Public Accounts, Volume 1*, (2013), p. 112.

⁴ Ministry of Finance, *2012-13 Annual Report*, (2013).



Figure 3—Comparison of Estimates to Actual Spending by Object

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Debt servicing	\$ 400.0	\$ 390.8
Salaries and benefits (includes pensions)	307.5	483.5
Transfers – operating	15.0	24.9
Goods and services	28.3	28.2
Capital asset amortization	1.1	1.4
Total Expense	\$ 751.9	\$ 928.8

Source: Saskatchewan Provincial Budget 12-13 Estimates (votes 12 and 18); Ministry of Finance 2012-13 financial records.

3.0 AUDIT CONCLUSIONS AND SCOPE

To complete our audit of the Public Employees Pension Plan, our Office worked with Deloitte LLP, the appointed auditor. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.⁵

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

- › **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 set out in Section 5.2 governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- › **Each agency 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 2012-13 audit, we examined the effectiveness of Finance's financial-related controls used to administer the revenue listed in **Figure 1** and spending listed in **Figures 2 and 3**. 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 estimates its income tax and resource surcharge resource revenues. In our audit, we assessed the processes that Finance uses 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 sinking funds), we assessed Finance's processes to record and manage cash, including its bank reconciliation

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

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, 2013, the Government approved, through Orders in Council (special warrants), spending of \$142.0 million; the Legislative Assembly later approved these amounts through appropriation acts.

4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we outline key observations from our assessments and the resulting recommendations. We made no new recommendations in 2012-13.

4.1 Implementation of Past Finance-Related Recommendations Needed

Figure 4 sets out our past financial-related recommendations. For each recommendation, we note when or if the recommendation was agreed to by the Standing Committee on Public Accounts (PAC), the status of its implementation at March 31, 2013, and highlight key actions the Ministry took to implement the recommendation during 2012-13.

Figure 4—Status of Past Recommendations

Past Recommendation (Initial PAS* Report, Date of Agreement of PAC)	Status of Recommendation	Key Actions Taken in 2012-13 to Implement Recommendation
We recommended 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. (2012 Report – Volume 2 – Chapter 9; Not yet considered by PAC)	Not Implemented	<p>None in 2012-13.</p> <p>Finance continues to use corporate income tax (CIT) installments received from the federal government as the basis to record corporate income tax (CIT) revenue.</p> <p>Also, the 2013 tax year was the first year Finance received corporate income tax (CIT) installments from the federal government under a revised payment schedule. In our opinion, the revised payment schedule increases the risk that CIT revenue may not be recorded in the year that it is earned.</p> <p>Finance recognizes that the amount of CIT revenue it records for a given taxation year could materially differ from the final tax assessments for that year (which are completed a year later), but it has not quantified the extent or direction of that difference. It notes that the primary factors that create variances in CIT revenue forecasts are the use of federal estimates of the national corporate taxable income (CTI) base, the volatility in Saskatchewan's share of the national CTI base, and in tax credits claimed from year to year. Volatility in Saskatchewan's share of the national CTI base primarily results from profit variability of a small number of very large corporate taxpayers in the resource sector, arising</p>



Past Recommendation (Initial PAS* Report, Date of Agreement of PAC)	Status of Recommendation	Key Actions Taken in 2012-13 to Implement Recommendation
		<p>from commodity price fluctuation, the timing of sales contracts, and capital investment intentions.</p> <p>Determining the extent and direction of potential differences would help Finance confirm whether CIT installments received from the federal government reflect the best estimate of CIT revenue earned and be consistent with its own reporting requirements.⁶</p> <p>As part of the Finance and GRF audits, we assessed the CIT amount recorded as 2012-13 revenue as reasonable based on information available at the completion of our audit of the GRF 2012-13 financial statements.</p>
<p>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 yet considered by PAC)</p>	<p>Partially Implemented</p>	<p>Finance continued its development of a more accurate reporting model by collecting and analyzing prior year data. The development of this model was not complete at March 31, 2013.</p>
<p>We recommended 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; PAC agreement March 13, 2007)</p>	<p>Partially Implemented</p>	<p>Finance and ITO have a memorandum of understanding (MOU) in place at March 31, 2013 regarding IT services being provided by ITO. The MOU included some information on IT security requirements. The MOU also included Finance’s specific disaster recovery requirements.</p> <p>In 2012-13, ITO did not perform any disaster recovery test exercises on Finance’s systems hosted by ITO. Also, ITO does not yet have a complete and tested disaster recovery plan. Thus, ITO is not able to conclude that it would be able to fully recover Finance’s systems and data in the time required in the event of a disaster. Finance has not yet determined how it plans to respond to this risk.</p> <p>During 2012-13, disaster recovery test exercises were completed by Finance’s service providers for its MIDAS and RS-50 systems. ITO participated in one of these disaster recovery exercises. These test exercises did not include Finance’s systems hosted by ITO.</p> <p>During 2013-14, Finance plans to amend its MOU with ITO.</p>
<p>We recommended 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; PAC agreement May 18, 2011)</p>	<p>Partially Implemented</p>	<p>Under its MOU with ITO, Finance expects to receive from ITO reports about the security and availability of its systems and data. Finance continues not to receive all of the requested reports consistently. The reports received do not provide it with sufficient information on ITO’s controls for keeping Finance’s systems and data secure and</p>

⁶ Financial Administration Manual, Appendix I, set outs the General Revenue Fund Year End Reporting Requirements and Procedures. These guidelines require ministries to provide information on items where the amount recognized or disclosed is based on an estimate that could vary by \$10,000,000 or more before March 31, 2013. This required information includes “the range of reasonably possible amounts.”

Past Recommendation (Initial PAS* Report, Date of Agreement of PAC)	Status of Recommendation	Key Actions Taken in 2012-13 to Implement Recommendation
		<p>available. Without sufficient information, Finance cannot determine the impact of security weaknesses on its systems and data and take corrective action where necessary.</p> <p>In Chapter 11 of our <i>2013 Report – Volume 1</i>, we report continued control weaknesses at ITO that pose increased risk of loss, disclosure, or unauthorized modification of systems and data.</p>
We recommended 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; PAC agreement May 18, 2011)	Partially Implemented	<p>Even though Finance received and reviewed bi-weekly reports that identified inactive system users to help identify and remove employees who no longer required system access, it continued to have instances where it did not request prompt removal of unneeded employee user access to its IT systems. During the audit, we identified 13 such instances (ITO network-4, MIDAS-3, RS-50-6).</p> <p>Finance has indicated that it plans to develop a new user access removal process in 2013-14 so that user access of staff no longer in its employ is removed promptly.</p>
We recommended 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; PAC agreement June 25, 2010)	Implemented	Finance set market-based benchmarks using the DEX Mid-Term Government Bond index to enable it to assess the reasonableness of return earned on its sinking fund investments. Its first, second and fourth quarter reports to senior management and Treasury Board included comparisons of actual return to the DEX index along with reasons for variances.
We recommended the Ministry of Finance monitor and report publicly on the performance of the investments in its sinking funds. (2009 Report – Volume 1 – Chapter 5; PAC agreement June 25, 2010)	Partially Implemented	See above for improvements in internally monitoring the performance of its investments in sinking funds. However, Finance does not yet report publicly on this performance (e.g., provide comparison of actual returns to planned returns).
We recommended the Ministry of Finance document its key treasury management procedures in sufficient detail so it can continue to operate effectively after staff turnover. (2009 Report – Volume 1 – Chapter 5; PAC agreement June 25, 2010)	Partially Implemented	Finance worked on plans to implement a new debt management IT system in 2013-14. It expects to document its treasury debt management procedures in conjunction with the adoption of this system.

* PAS – Provincial Auditor of Saskatchewan



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 the Standing Committee on Public Accounts (PAC) that are not yet implemented and are not discussed earlier in this chapter.

PAC Report Year	Outstanding Recommendation	Status
Ministry of Finance (IT Governance) (2009 Report – Volume 3)		
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 March 14, 2013) We plan to do a follow-up in the future.
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 March 14, 2013) We plan to do a follow-up in the future.
Public Employees' Benefits Agency (IT Security) (2010 Report – Volume 2)		
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) We plan to do a follow-up in 2013-14.

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 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

