

## Chapter 2 Agriculture

### 1.0 MAIN POINTS

This chapter reports the results of our annual audit of the Ministry of Agriculture (Agriculture), its agencies, and funds for the year ended on or before July 31, 2014.

Agriculture, its four agencies, and five funds complied with the authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. The 2014 financial statements of Agriculture's agencies and funds are reliable.

Agriculture, its agencies, and the Saskatchewan Agricultural Stabilization Fund had effective rules and procedures to safeguard public resources except Agriculture needs to:

- › Follow procedures for timely user access removal to computer systems
- › Obtain proper approval for and table in the Legislative Assembly its animal products inspection agreements and animal identification inspection agreements
- › Obtain adequate assurance from the Information Technology Division of the Ministry of Central Services over the security of Agriculture's computer systems and data
- › Improve its process for determining the possible extent to which its AgriStability estimates may vary from actual results

### 2.0 INTRODUCTION

The authority for Agriculture was contained in *The Department of Agriculture, Food and Rural Revitalization Act*.<sup>1</sup> During the year, Agriculture had 423.5 full-time equivalent employees.<sup>2</sup>

The purpose of the Agriculture is to enable a prosperous market-driven agricultural industry through a supporting legislative framework, policies, and programs and services.<sup>3</sup> Also, Agriculture regulates certain industry practices, such as branding, and various producer-elected commodity boards through the Agri-Food Council. During 2013-14, Agriculture administered the following key programs:

- › Agriculture Knowledge Centre (forage, farm business management, livestock, crops, irrigation)
- › Business risk management programs (e.g., Crop Insurance, AgriStability, AgriInvest)

<sup>1</sup> Effective August 15, 2014, *The Department of Agriculture, Food and Rural Revitalization Act* was amended and renamed *The Agriculture Administration Act*.

<sup>2</sup> Ministry of Agriculture, *Ministry Plan for 2014-15*, p.3.

<sup>3</sup> Ibid.



- ▶ Growing Forward 2 Programming (e.g., Farm Business Development Initiative, Farm & Ranch Water Infrastructure Program, Saskatchewan Agri-Value Initiative, Livestock Traceability Rebate, Market Development Program, Agriculture Awareness Initiative)
- ▶ Research programs (e.g., Agriculture Development Fund, Agriculture Demonstration of Practices & Technologies, Research Management, Strategic Research Program at the University of Saskatchewan and the Western Beef Development Centre)<sup>4</sup>

## 2.1 Financial Overview

In 2013-14, Agriculture had revenues of \$137.9 million (2013 - \$165.1 million) comprised primarily of transfers from the federal government for agricultural programs, as well as lease revenue, and land sales. Also, at March 31, 2014, Agriculture held agricultural lands, buildings, and equipment with a net book value of \$65.6 million.

In 2013-14, Agriculture spent \$391.4 million, of which almost 90% was for grants (transfers). This included \$249.2 million to Saskatchewan Crop Insurance Corporation for the Crop Insurance and AgriStability programs.

**Figure 1 – Major Programs and Spending**

	Estimates 2013-14	Actual 2013-14
	(in millions)	
Central Management and Services	\$ 10.8	\$ 10.0
Policy and Planning	3.6	3.0
Research and Technology	27.7	28.6
Regional Services	40.1	29.4
Land Management	8.4	6.5
Industry Assistance	7.2	5.9
Financial Programs	26.5	19.5
Business Risk Management – Crop Insurance, AgriStability, and AgriInvest	<u>282.5</u>	<u>287.0</u>
<b>Total Appropriation</b>	<u>406.8</u>	<u>389.9</u>
Capital Asset Acquisitions	(2.0)	(0.8)
Capital Asset Amortization	<u>2.1</u>	<u>2.3</u>
<b>Total Expense</b>	<u>\$ 406.9</u>	<u>\$ 391.4</u>

Source: 2013-14 Ministry of Agriculture Annual Report.

Agriculture's annual report provides further detail on its revenues and expenses including reasons for differences from its approved budget.<sup>5</sup>

<sup>4</sup> Government of Saskatchewan, *Ministry of Agriculture 2013-14 Annual Report*, p.5.

<sup>5</sup> *Ibid.*, p. 17 - 20.

## 2.2 Background

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, except for Saskatchewan Grain Car Corporation which has a July 31 year-end:

### Funds

Horned Cattle Fund  
Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund<sup>6</sup>  
Livestock Services Revolving Fund  
Pastures Revolving Fund  
Saskatchewan Agricultural Stabilization Fund

### Agencies

Agricultural Credit Corporation of Saskatchewan  
Agricultural Implements Board  
Prairie Agricultural Machinery Institute  
Saskatchewan Grain Car Corporation

Also, Agriculture partnered with the University of Saskatchewan in Prairie Diagnostic Services Inc.<sup>7</sup>

The results of our annual audits of Saskatchewan Crop Insurance Corporation and the Crop Reinsurance Fund of Saskatchewan are reported in Chapter 21 – Saskatchewan Crop Insurance.

## 3.0 AUDIT CONCLUSIONS AND SCOPE

To complete our audits, we worked with the appointed auditor of a Fund and agencies noted in **Figure 2**, using the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.<sup>8</sup>

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

Year-End	Agency	Appointed Auditor
March 31	Saskatchewan Agricultural Stabilization Fund	KPMG LLP
March 31	Agricultural Credit Corporation of Saskatchewan	MNP LLP
July 31	Saskatchewan Grain Car Corporation	Miller Moar Grodecki Kreklewich & Chorney

<sup>6</sup> Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund was wound up on March 27, 2014.

<sup>7</sup> Prairie Diagnostic Services Inc. provides veterinary diagnostic services to Saskatchewan veterinary and livestock industries.

<sup>8</sup> See our website at [www.auditor.sk.ca](http://www.auditor.sk.ca).



**In our opinion, for the year ended on or before July 31, 2014:**

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

<i>The Agri-Food Act, 2004</i>	<i>The Horned Cattle Purchases Act</i>
<i>The Agri-Food Regulations, 2004</i>	<i>The Horned Cattle Purchases Regulations, 1983</i>
<i>The Agricultural Credit Corporation of Saskatchewan Act</i>	<i>The Intensive Livestock Operations Environmental Rehabilitation Program Regulations</i>
<i>The Agricultural Credit Corporation of Saskatchewan Regulation, 1989</i>	<i>The Livestock Dealer Regulations, 1995</i>
<i>The Agriculture Implements Act</i>	<i>The Livestock Inspections and Transportation Regulations, 1978</i>
<i>The Agriculture Implements Regulations, 1982</i>	<i>The 2011 Saskatchewan Feed and Forage Program Regulations</i>
<i>The Animal Identification Act</i>	<i>The Short-term Hog Loan Regulations, 2008</i>
<i>The Animal Products Act</i>	<i>The Short-term Cattle Loan Program Regulations</i>
<i>The Irrigation Act, 1996</i>	<i>The Wildlife Damage and Livestock Predation Regulations</i>
<i>The Saskatchewan Crop Insurance Corporation Act</i>	<i>The Financial Administration Act, 1993</i>
<i>The Department of Agriculture, Food and Rural Revitalization Act</i>	<i>The Government Organization Act</i>
<i>The Ministry of Agriculture Regulations, 2007</i>	<i>The Pastures Act</i>
<i>The Farm Financial Stability Act</i>	<i>The Pastures Regulations</i>
<i>The Cattle Breeder Associations Loan Guarantee Regulations, 1991</i>	<i>The Prairie Agricultural Machinery Institute Act, 1999</i>
<i>The Cattle Feeder Associations Loan Guarantee Regulations, 1989</i>	<i>The Prairie Agricultural Machinery Institute Regulations, 1999</i>
<i>The Excess Moisture Program Regulations, 2011</i>	<i>The Provincial Lands Act</i>
<i>The Farm and Ranch Water Infrastructure Program Regulations</i>	<i>The Provincial Lands Regulations</i>
<i>The Saskatchewan Farm Security Act – Part VI</i>	<i>The Public Service Act, 1998</i>
<i>The Saskatchewan Farm Security Regulations</i>	<i>The Purchasing Act, 2004</i>
	Contracts and Orders in Council issued pursuant to the above legislation

▶ **The financial statements of the agencies and funds are reliable**

We used the control framework developed by the Canadian Institute of Chartered Accountants to make our judgments about the effectiveness of Agriculture's, its agencies', and the Saskatchewan Agricultural Stabilization Fund's controls. The control framework defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

Our audit included examining the effectiveness of Agriculture's and the agencies' and the Saskatchewan Agricultural Stabilization Fund's financial-related controls used to administer their spending, revenues and key assets. Also, we examined the effectiveness of the controls used to keep reliable financial records and prepare reliable financial reports. In our audit of Agriculture, we paid particular attention to the following three areas:

- ▶ Processes Agriculture used to estimate its costs for key business management programs and related amounts it owed to and was owed by 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 (e.g., relating to agricultural land, land leases, and land sales) that Agriculture relies on to administer its programs.
- › Controls over compliance with *The Saskatchewan Farm Security Act* – Part VI and *The Saskatchewan Farm Security Regulations* relating to farm land ownership.

## 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

Although Agriculture has established procedures for removing user access to its computer systems and data, staff did not consistently follow them.

For example, in 2013-14, 6 out of 10 individuals that we tested did not have their computer network access removed promptly. For these six individuals, access was removed between 3-36 working days after their last day of employment.

Not promptly removing user access of former employees increases the risk of inappropriate access to Agriculture's systems and data.

1. **We recommend that the Ministry of Agriculture follow its established procedures to promptly remove unneeded user access to its computer systems and data.**

### 4.2 Livestock Administration Agreement Not Authorized or Made Public as Required By Law

Agriculture has not obtained proper approval for an agreement that transferred the Ministry's administration of the livestock (inspection branding) program to an organization administered by the livestock industry.

*The Animal Identification Act* and *The Animal Products Act* both require Agriculture to obtain an Order in Council when it enters into an animal products inspection administration agreement and an animal identification administration agreement with another agency. An Order in Council is a directive issued by the Lieutenant Governor on the advice of Cabinet that authorizes a payment and makes the decision public.

Also, *The Animal Identification Act* and *The Animal Products Act* both require Agriculture to table any animal products inspection administration agreements and animal identification inspection administration agreements in the Legislative Assembly within 90 days of entering into the agreement. By tabling an agreement in the Legislative Assembly, Agriculture makes the decision public.



In January 2014, Agriculture entered into a five-year renewable agreement with Livestock Services of Saskatchewan (LSS) covering both animal product inspection and animal identification inspection without obtaining an Order in Council. The agreement transferred Agriculture's administration of the livestock program to LSS.

Accordingly, this agreement was not properly authorized or made public as required by law.

- 2. We recommend that the Ministry of Agriculture obtain an Order in Council prior to entering into an animal products inspection administration agreement and an animal identification inspection administration agreement as required by law.**

By September 30, 2014, Agriculture had not tabled its agreement with LSS in the Legislative Assembly as required by law. Accordingly, this agreement was not made public.

- 3. We recommend that the Ministry of Agriculture table all animal products inspection administration agreements and animal identification inspection administration agreements in the Legislative Assembly as required by law.**

### **4.3 Information Needed on Security of Systems and Data Hosted by ITD**

We recommended that the Ministry of Agriculture obtain assurance from the Information Technology Division of the Ministry of Central Services on the operating effectiveness of the Information Technology Division'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**

The Information Technology Division (ITD) of the Ministry of Central Services hosts key computer systems that Agriculture uses to carry out its operations (e.g., Crown Land Management System [CLMS] hosts financial information about its leases [e.g., information on lease holders and rates]).

During 2013-14, Agriculture continued to work with ITD to obtain information about the effectiveness of ITD's controls to keep Agriculture's key computer systems and data secure. During 2013-14, Agriculture did not receive such information. As such, it does not know if ITD keeps its key computer systems and data secure.

To take steps to manage the risk of its key computer systems and data not being available when needed, Agriculture must obtain adequate and timely information from ITD. It needs information about the security of computer systems and data that ITD hosts to enable it to take prompt action to address any significant deficiencies identified. This information may include assurance that ITD applies current security updates (i.e., patches) to key servers and operating systems on a timely basis, that access to key servers is properly restricted, and that backups are regularly completed.

## 4.4 Better Disclosure of Uncertainty in AgriStability Estimate Needed

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**

To estimate its program expenses, Saskatchewan Crop Insurance Corporation (SCIC), in conjunction with Agriculture, uses Agriculture and Agri-Food Canada's (AAFC) December estimate of Saskatchewan's program benefits as the basis for its March 31 estimate. As described in **Figure 3**, SCIC and Agriculture have input into this estimate process.

**Figure 3—Overview of Agriculture and Agri-Food Canada Process for Saskatchewan's Estimate of December 31 Program Expenses**

SCIC administers the AgriStability program for the Ministry of Agriculture (Agriculture) and AAFC. Agriculture pays 40% of the costs of the AgriStability program and AAFC pays the remaining 60%. The program operates on a calendar year (program year).

The deadline for producers to submit program forms for the previous program year is September 30, which is after SCIC's March 31 year-end. Also, the program allows producers to amend their submissions for up to 18 months after the date of their original calculation of Benefits Statement. Given the program deadline and ability for producer amendments, at March 31, SCIC has complete information for only a few producers when making its estimate of the amount it owed for benefit payments at year-end.

Benefit payments to producers under the AgriStability program are complex and are based on specific calculations for a program year. The change in a producer's current year's income<sup>9</sup> is compared to the average of the producer's previous five years' income.<sup>10</sup> The process involves receiving income tax return information from the Canada Revenue Agency and certain other information directly from the producer, and performing a number of verification steps. SCIC calculates the benefit payment due to the producer. If information used in the calculation is not correct or is later amended, it not only affects the current year calculation but it could also affect the calculation for several years into the future. This is because benefits are calculated based on current and past years' income.

<sup>9</sup> The program year is defined as the taxation year for which program forms are being submitted. The producer's current year income is adjusted for items such as changes in inventory valuation, receivables, payables, and purchased inputs. See pages 10 and 14 of the *AgriStability Program Handbook*.

<sup>10</sup> The previous years' income amount is calculated by taking the average income of the previous five years with the highest and lowest years dropped.



Agriculture does not use its own model to estimate the amount of AgriStability benefit payments likely to be paid out for a given program year. Rather, Agriculture and SCIC rely on AAFC for this estimate. Each year, AAFC provides SCIC and Agriculture with its initial income forecast and estimate of program benefits specific to Saskatchewan as of December 31. AAFC bases its December estimate on its economic forecast of the overall condition of the farming industry in Canada and in Saskatchewan, and its assumptions for items such as grain and farming inputs prices and quantities as well as the anticipated producer participation level in the program.

AAFC's process to determine the AgriStability estimate is complex as many factors affect farm incomes and subsequently, the estimated amount of AgriStability benefits. The factors include the overall strength of the farm economy, commodity prices, inflation related to the price of farm inputs, moisture levels and weather patterns. It is difficult for the federal model to capture all of the unique circumstances for Saskatchewan. For example, management of SCIC indicated that in a year with excess moisture in Saskatchewan, AAFC's estimate would include an overall effect of flooding for the province as a whole, but not for a particular part of the province.

SCIC and Agriculture review the assumptions AAFC uses in its initial income forecast and estimate. They provide AAFC with their input based on their assessment of its reasonableness. AAFC makes adjustments based on discussions with SCIC and Agriculture. Once the assumptions are finalized, then AAFC provides SCIC and Agriculture with its December 31 estimate of program benefits specific to Saskatchewan.

These estimates are necessary because neither Agriculture nor SCIC have final AgriStability information from producers until after their March 31 fiscal year-end. It is important that these estimates be as accurate as possible so that Agriculture records, to the greatest extent possible, the costs of this program in the correct fiscal year. It is also important that Agriculture and SCIC know the possible extent to which the estimates may vary from actual results.

Agriculture and SCIC must be diligent in their efforts to assess the reasonability of assumptions AAFC uses in the initial income forecast and estimate. Agriculture and SCIC must continue to actively monitor the industry, both locally and abroad, and use this knowledge to assess possible impacts on inputs into AAFC's model.

SCIC and Agriculture are aware that AAFC's estimate has not provided reasonably accurate results in the past. The estimates that Agriculture has recorded each fiscal year have fluctuated significantly from actual results since the inception of the AgriStability program in 2007. This fluctuation is shown in **Figures 4 and 5**. **Figure 4** compares Agriculture's original estimate of AgriStability benefits to actual benefits paid by program year. **Figure 5** highlights, by fiscal year, adjustments Agriculture makes to its AgriStability expense as a result of changes to its prior year estimated AgriStability expense.

**Figure 4—Five-Year History of Ministry of Agriculture AgriStability Expenses by Program Year**

Program Year <sup>a</sup>	Original Estimate of AgriStability Benefits	AgriStability Benefits to March 31, 2014 <sup>b</sup>	Difference Between Estimated and Actual
(in millions)			
2009	\$ 81.9	\$ 48.3	\$ 33.6
2010	99.3	101.0	(1.7)
2011	40.6	83.6	(43.0)
2012	79.0	80.0	(1.0)
2013	17.9	17.9 <sup>c</sup>	0.0

Source: Ministry of Agriculture accounting records.

<sup>a</sup> Program year for AgriStability is from January 1 to December 31.

<sup>b</sup> This is the actual amount of benefits paid and an estimate of benefits not yet paid by program year up to March 31, 2014.

<sup>c</sup> For 2013 program year, the original estimate of AgriStability Benefits is as at March 31, 2014. Therefore, at March 31, 2014, there is no difference between actual and estimated expenses.



**Figure 5—Five-Year History of Ministry of Agriculture AgriStability Program Expense by Fiscal Year**

Fiscal Year <sup>a</sup>	AgriStability Expense <sup>b</sup>	Decrease in Estimated Prior Program Year AgriStability Benefits Recorded as Revenue <sup>c</sup>	Net AgriStability Expense <sup>d</sup>	Original Estimate of Current Program Year AgriStability Benefits – Figure 4	Increase in Estimated Prior Program Years' AgriStability Benefits Recorded as Expense <sup>d</sup>
(in millions)					
2009-10	\$ 96.9	\$ (37.7)	\$ 59.2	\$ 81.9	\$ (22.7)
2010-11	109.3	(57.3)	52.0	99.3	(47.3)
2011-12	40.6	(3.5)	37.1	40.6	(3.5)
2012-13	114.1	-	114.1	79.0	35.1
2013-14	22.1	-	22.1	17.9	4.2

<sup>a</sup> Agriculture's fiscal year is from April 1 to March 31.

<sup>b</sup> Actual estimated expenses recorded in Agriculture's accounting records for that fiscal year other than 2012-13. 2012-13 amount is reduced by \$30.9 million for a reclassification of accounts payable.

<sup>c</sup> Agriculture records a reversal of prior year expense as revenue (refund to prior year expense revenue) in the current year when its prior year expense was too high.

<sup>d</sup> Agriculture records an additional expense when its prior year expense was too low.

Agriculture indicated that it has been unable to find alternate methods of determining other reasonably possible amounts or validating AAFC's estimate. However, neither SCIC nor Agriculture have determined the extent of uncertainty in the federal estimate for Saskatchewan. Unlike Alberta, neither SCIC nor Agriculture have asked AAFC to provide them with this information.<sup>11</sup>

Agriculture recognizes that the expense it records in its financial records for AgriStability is an estimate and may materially change causing a material change to the amounts due to/from SCIC as the assumptions used may change. Agriculture provides information on the extent of uncertainty in AgriStability program costs to the Ministry of Finance; however, Agriculture does not disclose this publicly (e.g., in its annual report).

Not making this information public increases the risk that legislators and the public may not understand the extent of uncertainty of the amounts Agriculture has recorded related to AgriStability, and may make incorrect decisions about the program.

<sup>11</sup> The Government of Alberta obtains information from the federal government on the extent on uncertainty of its federal estimate.

