

## 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 related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. The 2013-14 financial statements of each of the agencies are reliable. Finance and these agencies had effective rules and procedures to safeguard public resources except for the matters noted in this chapter.

Finance administers the corporate capital tax program including resource surcharge revenues. In order to ensure it records these revenues in the proper period, Finance needs to complete its development and implementation of a more accurate reporting model for these revenues.

Finance did not require one of its information technology (IT) service providers, the Information Technology Division of the Ministry of Central Services (ITD), to annually confirm, through testing, whether ITD could recover Finance's critical systems and data in the event of a disaster. Also, Finance did not follow its processes to promptly remove unneeded user access to its IT systems and data.

Finance has 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 reported this information publicly. It also had not 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 approved appropriations
- › 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 related to the core government operations
  - Strategic policy on matters related to public sector compensation and management or collective bargaining
  - Financial management and accounting
  - Annual performance planning, measuring, and reporting processes<sup>1</sup>

## 2.1 Special Purpose Funds and Agencies

Finance administers and is responsible for the following special purpose funds and agencies (agencies). Each of the agencies (except for the Growth and Financial Security Fund and the General Revenue Fund)<sup>2</sup> provide the Legislative Assembly with audited financial statements; some also provide an annual report.

### Year Ended March 31

General Revenue Fund (GRF)<sup>3</sup>  
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  
Water Security Agency 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 Severance Pay Credits Plan  
Saskatchewan Water Corporation Retirement Allowance Plan  
SaskEnergy Retiring Allowance Plan  
SaskPower Supplementary Superannuation Plan

This chapter includes the results of our annual audit of the Ministry of Finance and the other agencies with March 31 year-ends. Our *2014 Report – Volume 1* reported the results of our audits of agencies with December 31 year-ends.

<sup>1</sup>Ministry of Finance, *Ministry of Finance Annual Report for 2013-14*.

<sup>2</sup>Both the General Revenue Fund and the Growth and Financial Security Fund do not prepare financial statements and are not legally required to do so. *Public Accounts – Volume 2* includes information on these funds.

<sup>3</sup>The General Revenue Fund is comprised of all ministries of the Government. It is the fund into which all revenues are paid unless otherwise provided for by law and from which all expenses are appropriated by the Legislative Assembly.

## 2.2 Financial Overview

For the year ended March 31, 2014, Finance administered revenues of \$8.7 billion (2013 – \$8.7 billion), spent approximately \$0.7 billion (2013 – \$0.9 billion), and managed gross public debt<sup>4</sup> of \$11.9 billion (2013 – \$11.3 billion) and investments in sinking funds<sup>5</sup> of \$1.7 billion (2013 – \$1.8 billion).<sup>6</sup>

**Figure 1** compares actual revenue to budget by major type of revenue, **Figure 2** compares actual spending to budget by major program, and **Figure 3** compares actual spending to budget by object.

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

	Estimates 2013-14	Actual 2013-14
	(in millions)	
Taxation	\$ 5,983.6	\$ 5,937.0
Non-renewable resources – resource surcharge	488.8	436.9
Transfers from government entities	714.8	711.4
Other own-source revenue	275.8	289.4
Transfers from the federal government	1,347.4	1,359.5
<b>Total</b>	<b>\$ 8,810.4</b>	<b>\$ 8,734.2</b>

Source: Saskatchewan Provincial Budget 13-14 Estimates (votes 12 and 18); Ministry of Finance Annual Report for 2013-14.

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

	Estimates 2013-14*	Actual 2013-14
	(in millions)	
Public service pension and benefits**	\$ 291.1	\$ 289.5
Revenue division	26.4	26.5
Research and development tax credit	15.0	34.7
Provincial comptroller	11.8	9.9
Central management and services	6.4	6.1
Budget analysis	5.3	5.2
Treasury and debt management	2.3	1.9
Personnel policy secretariat	0.5	0.5
Miscellaneous	0.1	0.0
<b>Total appropriation – vote 18</b>	<b>\$ 358.9</b>	<b>\$ 374.3</b>
Capital asset acquisitions	(0.0)	(0.0)
Amortization of capital assets	1.0	0.6
<b>Total expense – vote 18</b>	<b>\$ 359.9</b>	<b>\$ 374.9</b>
Debt servicing appropriation and expense – vote 12	340.0	327.9
<b>Total expense – Finance</b>	<b>\$ 699.9</b>	<b>\$ 702.8</b>

Source: Saskatchewan Provincial Budget 13-14 Estimates (votes 12 and 18); Ministry of Finance Annual Report for 2013-14; Ministry of Finance 2013-14 financial records.

\*Finance obtained additional funding through special warrants of \$20.9 million.

\*\*Finance determines the estimated and actual expenses for public service pension and benefits using the cash basis of accounting instead of the accrual basis. For 2013-14, the audited Summary Financial Statements include additional pension and benefits costs for defined pension and benefit plans sponsored by the Ministry of Finance of \$75.85 million.

<sup>4</sup> Gross public debt is borrowings through the issuance of debt instruments such as promissory notes and debentures.

<sup>5</sup> Investments in sinking funds are investments set aside for the repayment of debt.

<sup>6</sup> Ministry of Finance 2013-14 financial records.

**Figure 3—Comparison of Estimates to Actual Spending by Object**

	Estimates 2013-14*	Actual 2013-14
	(in millions)	
Debt servicing	\$ 340.0	\$ 327.9
Salaries and benefits (includes pensions)	315.4	312.2
Transfers – operating	15.0	34.7
Goods and services	28.5	27.4
Capital asset amortization	1.0	0.6
<b>Total expense</b>	<b>\$ 699.9</b>	<b>\$ 702.8</b>

Source: Saskatchewan Provincial Budget 13-14 Estimates (votes 12 and 18); Ministry of Finance 2013-14 financial records.

\*Finance obtained additional funding through special warrants of \$20.9 million.

Finance’s annual report explains significant differences between actual and estimated revenues and expenses.<sup>7</sup>

### 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*.<sup>8</sup>

**In our opinion, for the year ended March 31, 2014:**

- › **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 Exhibit 5.1 governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- › **Each agency<sup>9</sup> had reliable financial statements**

We used the control framework developed by the Canadian Institute of Chartered Accountants to make our judgments about the effectiveness of Finance’s and the agencies’ 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.

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**, keep reliable financial records, and prepare reliable financial reports.

Finance estimates income tax and resource surcharge revenues. We assessed its processes to assess, estimate, collect, and record these revenues. Finance also administers the GRF’s bank accounts, short- and long-term debt, and short- and long-

<sup>7</sup> Ministry of Finance, *Ministry of Finance Annual Report for 2013-14*.

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

<sup>9</sup> Both the General Revenue Fund and the Growth and Financial Security Fund do not prepare financial statements and are not legally required to do so. *Public Accounts – Volume 2* includes information on these funds.

term investments (including investments in sinking funds). We assessed its processes to record and manage cash (including its bank reconciliation procedures and the opening and closing of bank accounts), buy and sell investments, and obtain and repay debt. Also, because Finance relies on its computer systems to manage its operations, we assessed its controls over key IT service providers, IT security, change management processes, and user access. In 2013-14, Finance began its conversion to a new debt management IT system. We examined its processes to ensure the data in its new system was complete and accurate.

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2014, Cabinet approved, through Orders in Council (special warrants), spending of \$57.2 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.

### 4.1 Revenue Estimation Processes Improved

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; Public Accounts Committee agreement January 13, 2014)

**Status** – Implemented

In 2013-14, provincial corporate income tax (CIT) revenue was \$1.017 billion (2012-13 – \$0.838 billion).

Finance publicly recognizes (i.e., in the notes to the Summary Financial Statements) 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). In prior years, the amount of CIT revenue recorded by Finance and the amount of CIT revenue earned based on final tax assessments have differed significantly (e.g., annual differences have ranged from \$31 million to \$351 million between the 2005 to the 2012 tax years).

Finance uses CIT cash installments received from the federal government as the basis to estimate and record corporate income tax revenue earned by the province in each fiscal period. The federal government determines these CIT installments based on the CIT estimation model set out in the Tax Collection Agreement.<sup>10</sup> The estimation model is intended to approximate the taxes earned by each province in each fiscal period. The federal government and participating provinces updated this estimation model in 2012 through an amendment to the Tax Collection Agreement.

<sup>10</sup> The Tax Collection Agreement is an agreement between the Government of Canada and participating provinces and territories (other than Quebec and Alberta). It was most recently amended in September 2012. The Government of Canada administers Saskatchewan's provincial income taxes under the terms of this agreement.



Finance actively monitors information received from the federal government on actual assessments to determine the possible impact on its revenue. Finance has identified and monitors the primary factors that may create fluctuations in CIT revenue. These include the use of federal estimates of the national corporate taxable income (NCTI) base, the volatility in Saskatchewan's share of the NCTI base, and tax credits claimed from year to year. Volatility in Saskatchewan's share of the NCTI base primarily results from profit variability for a small number of very large corporate taxpayers in the resource sector, arising from commodity price fluctuations, the timing of sales contracts, and capital investment intentions.

Since the changes were made to the Tax Collection Agreement in 2012, the differences between CIT revenue recorded by Finance (based on estimates) and actual CIT revenue (based on final tax assessments) have decreased.

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; Public Accounts Committee agreement January 13, 2014)

**Status** – Partially Implemented

Finance continued its development of a more accurate reporting model for resource surcharge revenues by collecting and analyzing historical data for uranium and potash revenues. Finance expects to complete and potentially use this reporting model for these resource surcharge revenues in 2014-15. If Finance determines that the model provides a reasonable basis for estimating these resource surcharge revenues, it plans to develop a new reporting model for oil and gas resource surcharge revenues.

Without effective processes to estimate and record revenues, future financial statements of the Government may contain significant errors.

## 4.2 Improved Monitoring of IT services from Central Services – Information Technology Division

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; Public Accounts Committee agreement May 18, 2011)

**Status** – Implemented

Since 2011, Finance and the Ministry of Central Services – Information Technology Division (ITD)<sup>11</sup> have had a memorandum of understanding (MOU) regarding the IT services that ITD provides. The MOU includes Finance's information technology security

<sup>11</sup> Effective May 2012, the Information Technology Office (ITO) was disestablished as a separate Ministry and became the Information Technology Division (ITD) of the Ministry of Central Services.

and specific disaster recovery requirements. The MOU requires ITD to provide Finance with regular reports to help it monitor the services ITD provides.

During 2013-14, Finance received most of the reports it requested from ITD about the security and availability of its systems and data. Where it did not receive the requested reports, Finance actively followed up with ITD to obtain the necessary information. Also, Finance regularly discussed security issues with ITD.

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; Public Accounts Committee agreement March 13, 2007)

**Status** – Partially Implemented

To monitor whether ITD fulfills its IT security and disaster recovery requirements, Finance meets with ITD staff and receives and reviews reports on IT security (e.g. user access, firewall, intrusion detection) to assess whether its systems and data are secure and available. However, it does not always resolve identified disaster recovery issues on a timely basis.

For example, during 2011-12, ITD advised Finance that based on the results of its disaster recovery test on one of Finance's systems and data, ITD was unable to conclude that it would be able to fully recover this system in the event of a disaster. Finance is aware that ITD has not performed any disaster recovery test exercises on Finance's systems that it hosts since that time. However, at March 2014, Finance had not determined how it planned to respond to the risk that ITD may not be able to recover its critical systems and data in the event of a disaster. It had not required, in writing, that ITD complete disaster recovery testing annually on its critical systems, and provide it with the results of the testing so it could work with ITD to resolve any issues encountered. This would allow Finance to confirm that its systems and data can be restored in a timely manner in the event of a disaster.

Not requiring timely testing of disaster recovery plans and promptly resolving issues arising from the testing of those plans increases the risk that ITD may not be able to recover Finance's critical systems and data in the event of a disaster.

### **4.3 Need to Follow Established Procedures for Removing User Access Promptly**

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; Public Accounts Committee agreement May 18, 2011)

**Status** – Partially Implemented



Staff did not consistently follow Finance's established processes for removing unneeded access promptly.

During 2013-14, Finance continued to receive and review bi-weekly reports from ITD that identified inactive system users. Starting in May 2013, to help identify any users that require removal of access, Finance compared listings provided by the Public Service Commission of employees no longer employed by Finance to user access listings from ITD.

However, in 2013-14, our testing found nine instances where access was not removed promptly (i.e., access not removed until 3 to 294 days after last day of employment) (2012-13 – six instances where access removed 2 to 102 days after last day of employment).

If unneeded user access is not removed promptly, it increases the risk of inappropriate access and unauthorized changes to the systems and data.

#### 4.4 Improved Reporting on Performance of Investments in Sinking Funds Needed

We recommended that the Ministry of Finance monitor and report publicly on the performance of the investments in its sinking funds. (2009 Report – Volume 1; Public Accounts Committee agreement June 25, 2010)

**Status** – Partially Implemented

At March 31, 2014, Finance managed the Government's investments in sinking funds totalling \$1.73 billion (2013 – \$1.83 billion). Investments in sinking funds are money the Government has set aside to repay its long-term debt. In 2013-14, these investments earned \$63.9 million (2013 – \$141.9 million).<sup>12</sup>

In 2012-13, Finance set market-based benchmarks using the DEX Mid-Term Government Bond Index<sup>13</sup> to assess the reasonableness of returns earned on its sinking fund investments. Starting in 2013-14, quarterly reports to senior management included comparisons of actual returns to the DEX index along with reasons for differences.

The Canadian Public Sector Accounting Board's Statement of Recommended Practice on Financial Statement Discussion and Analysis<sup>14</sup> suggests governments include an analysis of the rates of return on investments and portfolio composition to further the understanding of the nature and magnitude of resources available to the government.

In 2013-14, public information on the performance of the Government's investments in the sinking funds was limited to information included in the Government's Summary

<sup>12</sup> Schedule 9 of the Government of Saskatchewan Summary Financial Statements – *Public Accounts 2013-14 Volume 1*, p. 64.

<sup>13</sup> Effective October 1, 2013, this index was renamed the FTSE TMX Canada Mid-Term Government Bond Index. The index is designed to measure the performance of government bonds outstanding in the Canadian market. See [www.ftse.com/products/FTSETMX/Home/Indices](http://www.ftse.com/products/FTSETMX/Home/Indices) (8 October 2014).

<sup>14</sup> The Canadian Public Sector Accounting Board provides governments with best practices for information to include in their financial statement discussion and analysis.



Financial Statements (i.e., total amount of actual earnings and portfolio composition of investments in sinking funds).

Not making public an analysis of rate of returns on sinking fund investments increases the risk that legislators and the public will not understand Finance's performance in managing the Government's investments in sinking funds.

## 4.5 Key Treasury Management Procedures Documentation Needs Improvement

We recommended that 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; Public Accounts Committee agreement June 25, 2010)

**Status** – Partially Implemented

During 2013-14, Finance began implementing a new debt management IT system. As part of the new system implementation, management is documenting new treasury management procedures. By March 31, 2014, it had completed phase 1 of the project and was developing phases 2 and 3. It expects to complete these phases during 2014-15.

Also, during 2013-14, Finance documented procedures for Saskatchewan Savings Bonds. It expects to complete its documentation of other key treasury management procedures in conjunction with the implementation of the new debt management IT system.

Lack of documented detailed procedures could hamper the ability of Finance to continue with minimal interruption in its treasury management functions in the event of staff turnover.



## 5.0 EXHIBIT

### 5.1 Summary of Relevant Legislation

#### 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, 1985 (Canada)*  
*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, 1985 (Canada) (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) (sections 8501-8504, 8512, 8514, and 8520)*  
*The Superannuation (Supplementary Provisions) Act, (section 36.2)*  
*The Tabling of Documents Act, 1991*  
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 Act, 1992*  
*The Income Tax Act (Canada) (sections 147.1, 147.2, and 147.3)*  
*The Income Tax Act Regulations (Canada) (sections 8501-8505, 8512, 8514, and 8520)*  
*The Tabling of Documents Act, 1991*  
Orders in Council issued pursuant to the above legislation

#### Water Security Agency Retirement Allowance Plan:

*The Financial Administration Act, 1993 (section 64)*  
*The Crown Employment Contracts Act (section 8)*  
Orders in Council issued pursuant to the above legislation  
Water Security Agency Retirement Allowance Plan Document