

Chapter 21

Saskatchewan Crop Insurance Corporation

1.0 MAIN POINTS

Saskatchewan Crop Insurance Corporation (SCIC) provides Saskatchewan producers with insurance and financial support programs. These programs include Crop Insurance, AgriStability, and Wildlife Damage Compensation. SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Reinsurance Fund).

SCIC's financial statements and the Reinsurance Fund's financial statements for the year ended March 31, 2014 are reliable. Also, SCIC and the Reinsurance Fund complied with authorities governing their activities related to financial reporting, safeguarding resources, revenue raising, spending, and investing.

In 2014, SCIC had effective rules and procedures to safeguard public resources except that it did not determine the extent of uncertainty in its estimate for unpaid AgriStability benefits or disclose the possible extent of this uncertainty.

2.0 INTRODUCTION

SCIC administers the AgriInsurance (Crop Insurance) and the AgriStability programs under the authority of *The Saskatchewan Crop Insurance Corporation Act*. SCIC also administers the Wildlife Damage Compensation Program on behalf of the Saskatchewan Ministry of Agriculture. The costs for these programs are shared between the producers and both the Government of Saskatchewan and the Government of Canada in accordance with the rules set out in the *Growing Forward 2: A Federal-Provincial – Territorial Framework Agreement on Agriculture, Agri-food and Agri-based Products Policy* (known as the Growing Forward Agreement). These three programs are described below:

- ▶ The Crop Insurance program provides producers with insurance for crop losses due to weather-related and other natural perils. The program guarantees a minimum crop yield and quality of grain to agricultural producers, subject to specific insurance decisions made by each producer.
- ▶ The AgriStability program, created under the Growing Forward Agreement, provides support to producers who experience large income losses (i.e., an income-based support program).¹ That is, it provides financial assistance to producers when they experience a large margin decline² caused by production loss, increased costs, or market conditions.

¹ Saskatchewan Crop Insurance Corporation, *Annual Report 2013-14*, p. 7.

² A large margin decline is when a participating producer's current year program margin falls below a specified percentage of the producer's historical reference margin (e.g., 70% for 2013 program year). **Program margin** is a producer's allowable income minus a producer's allowable expenses in a given program year, with adjustments for changes in receivables, payables and inventory. These adjustments are made based on information the producer submits on the AgriStability harmonized form. **Historical reference margin** is a producer's average program margin for three of the past five years (the lowest and highest margins are dropped from the calculation). It is limited to the lower of the producer's historical reference margin or average allowable expenses for the years used to calculate the reference margin. Obtained from www.agr.gc.ca/eng/?id=1291990433266 (14 October 2014).



- ▶ The Wildlife Damage Compensation Program provides producers with crop damage compensation, predation compensation,³ and prevention. Financial reporting for this program is included in the financial statements of the Saskatchewan Agricultural Stabilization Fund reported by the Ministry.

SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Reinsurance Fund). The Reinsurance Fund receives premiums from SCIC and pays reinsurance claims to SCIC based on formulas established under the Growing Forward Agreement.

SCIC's head office is located in Melville with 21 customer service offices in communities throughout the province.⁴ It employs over 500 staff; approximately one-half of SCIC's staff work at its head office and the other half work at the customer service offices.

2.1 Financial Overview

At March 31, 2014, SCIC held assets of \$1,030 million (2013 – \$694 million). For the year ended March 31, 2014, SCIC had revenue of \$833 million (2013 – \$1,027 million), expenses of \$384 million (2013 – \$928 million), and an annual surplus of \$449 million (2013 – surplus of \$99 million).

For the year ended March 31, 2014, the Reinsurance Fund had revenue of \$42 million (2013 – \$39 million) and had an accumulated surplus of \$165 million (2013 – \$123 million).

Each year SCIC provides the Legislative Assembly with its annual report including its and the Reinsurance Fund's audited financial statements. The annual report can be found on SCIC's website.⁵

3.0 AUDIT CONCLUSIONS AND FINDINGS

Our Office worked with KPMG LLP, the appointed auditor, to carry out the audits of the SCIC and the Reinsurance Fund. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.⁶

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

- ▶ **SCIC had effective rules and procedures to safeguard public resources**
- ▶ **SCIC complied with the following authorities governing its and the Reinsurance Fund's activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Saskatchewan Crop Insurance Corporation Act
The Crop Insurance Regulations
The Financial Administration Act, 1993
Orders in Council issued pursuant to the above legislation
Growing Forward 2: A Federal-Provincial-Territorial Framework Agreement on Agriculture, Agri-Food and Agri-Based Products Policy

³ Wildlife Damage Compensation Program provides compensation to producers for injury or death to eligible livestock, fowl or specialty animals by predators.

⁴ Saskatchewan Crop Insurance Corporation, *Annual Report 2013-14*, p. 6.

⁵ www.saskcropinsurance.com (14 October 2014).

⁶ See our website at www.auditor.sk.ca.

» The financial statements of SCIC and the Reinsurance Fund are reliable

We also report a matter related to SCIC's estimate of AgriStability Program Benefits.

We used the control framework developed by the Canadian Institute of Chartered Accountants to make our judgments about the effectiveness of SCIC'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.

In our 2013-14 audit, we examined the effectiveness of SCIC's controls used to administer revenues, including setting and collecting premiums, and expenses identified in **Section 2.0**. SCIC's significant revenues include funding from the Ministry of Agriculture and the Government of Canada. SCIC's significant expenses include crop insurance payments, program payments and administration expenses. The reinsurance funds hold reinsurance premiums for SCIC. Also, we examined the effectiveness of the controls it used to keep reliable financial records and prepare reliable financial reports.

3.1 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, SCIC, in conjunction with the Ministry of Agriculture (Agriculture), use Agriculture and Agri-Food Canada's (AAFC) December estimate of Saskatchewan's AgriStability program benefits as the basis for its March 31 estimate. As described in **Figure 1**, SCIC and the Agriculture have input into this estimate process.

Figure 1 – Overview of Agriculture and Agri-Food Canada Process for Saskatchewan's Estimate of December 31 Program Expenses

SCIC administers the AgriStability program for 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 income⁷ is compared to the

⁷ 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*.



average of the producer's previous five years' income⁸. 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.

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, AAFC provides SCIC and Agriculture with its December 31 estimate of program benefits specific to Saskatchewan.

SCIC and Agriculture are aware that AAFC's estimate has not provided reasonably accurate results in the past. For example, SCIC's March 31, 2014 financial statements included an adjustment for the prior years' AgriStability estimate of \$10.5 million (2013 – \$166.8 million). This resulted in an increase in the AgriStability expense.

Management indicated that it has not been able to find alternate methods of determining other reasonably possible amounts or validating AAFC's estimate. However, neither SCIC, Agriculture, nor AAFC 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.⁹

SCIC discloses, in its financial statements, that the amount it has recognized for AgriStability indemnity payables (amount owed to producers) is an estimate and may materially change causing a material change to the amounts due to/from the Government of Canada and Agriculture as the assumptions used may change. However, SCIC does not disclose the possible extent of this change.

There is a risk that legislators and the public, when reading SCIC's financial statements, may not understand the extent of uncertainty of the amounts it has recorded in its statements related to the AgriStability program.

⁸ The previous years' income amount is calculated by taking the average income of the previous five years with the highest and lowest years dropped.

⁹ The Government of Alberta obtains information from the federal government on the extent on uncertainty of its federal estimate.