

Chapter 8

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 2014-15 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 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 Ministry of Central Services (Central Services), to annually confirm, through testing, whether or not Central Services 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.

We also found that Finance did not publically report planned and actual rates of returns on sinking fund investments.

During 2014-15, Finance completed documentation of its key 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 processes¹

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)² provide the Legislative Assembly with audited financial statements; some also provide an annual report.

This chapter reports the results of our annual audits of the Ministry of Finance and agencies with March 31 year-ends.

Figure 1 – Agencies with March 31 Year-End

General Revenue Fund (GRF) ³	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

Figure 2 – Agencies with December 31 Year-End

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	

2.2 Financial Overview

As shown in **Figures 3 and 4**, for the year ended March 31, 2015, Finance administered revenues of \$8.7 billion (2014: \$8.7 billion), and expenses of \$0.6 billion (2014: \$0.7

¹ Ministry of Finance Annual Report for 2014-15.

² These Funds do not prepare financial statements and are not legally required to do so. The financial results of these funds are included in the Government's Summary Financial Statements.

³ 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.

billion). It managed gross public debt⁴ of \$12.7 billion (2014: \$11.9 billion) and investments in sinking funds⁵ of \$1.6 billion (2014: \$1.7 billion).⁶

Figure 5 compares actual expenses to budget by object. Finance's annual report explains significant differences between actual and estimated revenues and expenses.⁷

Figure 3—Revenue by Major Type

	Estimates 2014-15	Actual 2014-15
	(in millions)	
Taxation	\$ 6,160.2	\$ 5,878.1
Non-renewable Resources – Resource Surcharge	449.1	474.5
Transfers from Government Entities	723.1	718.7
Other Own-source Revenue	261.5	277.5
Transfers from the Federal Government	<u>1,412.1</u>	<u>1,398.2</u>
Total	\$ 9,006.0	\$ 8,747.0

Source: Ministry of Finance Annual Report for 2014-15.

Figure 4—Expenses by Major Program

	Estimates 2014-15	Actual 2014-15
	(in millions)	
Public service pension and benefits*	\$ 301.4	\$ 291.7
Revenue division	28.8	27.7
Research and development tax credit	15.0	15.0
Provincial comptrollers	11.6	9.6
Central management and services	6.5	6.4
Budget analysis	5.4	5.2
Treasury and debt management	2.3	2.1
Personnel policy secretariat	0.5	0.5
Miscellaneous	<u>0.1</u>	<u>0.1</u>
Total Appropriation – Vote 18	\$ 371.6	\$ 358.3
Capital asset acquisitions	(2.2)	(0.0)
Amortization of capital assets	<u>0.7</u>	<u>0.6</u>
Total Expense – Vote 18	\$ 370.1	\$ 358.9
Debt servicing appropriation and expense – vote 12	<u>285.0</u>	<u>263.4</u>
Total Expense	\$ 655.1	\$ 622.3

Source: Saskatchewan Provincial Budget 14-15 Estimates (vote 12 and 18); Ministry of Finance Annual Report for 2014-15; Ministry of Finance 2014-15 financial records.

*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 2014-15, the audited Summary Financial Statements include a reduction in pension and benefits costs for defined pension and benefit plans sponsored by the Ministry of Finance of \$178.89 million.

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

⁵ Investments in sinking funds are investments set aside for the repayment of debt.

⁶ Government of Saskatchewan Summary Financial Statements – *Public Accounts 2014-15 Volume 1*, Schedule 8, p. 63.

⁷ Ministry of Finance Annual Report for 2014-15.

**Figure 5—Expenses by Object**

	Estimates 2014-15	Actual 2014-15
	(in millions)	
Debt servicing	\$ 285.0	\$ 263.4
Salaries and benefits (includes pensions)	326.3	315.5
Transfers – operating	15.0	15.0
Goods and services	28.1	27.8
Capital asset amortization	0.7	0.6
Total Expense	\$ 655.1	\$ 622.3

Source: Saskatchewan Provincial Budget 14-15 Estimates (vote 12 and 18); Ministry of Finance 2014-15 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*.⁸

In our opinion, for the year ended March 31, 2015:

- › **Finance and its agencies had effective rules and procedures to safeguard public resources except for the matters related to Finance 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 agencies⁹ financial statements are reliable**

We used the control framework published by CPA Canada 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 and the agencies' financial-related controls used to administer revenues and expenses, to keep reliable financial records, and to 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-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

⁸ See our website at www.auditor.sk.ca.

⁹ 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.

assessed its controls over key IT service providers, security, change management processes, and user access. We assessed Finance's processes to request proposals and select a vendor for a new revenue system as part of its Revenue Administration Modernization Project (RAMP).

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2015, Cabinet approved, through Orders in Council (special warrants), spending of \$87.7 million; the Legislative Assembly later approved these amounts through appropriation acts.

4.0 KEY FINDINGS AND RECOMMENDATIONS

We did not identify any new control deficiencies. In this section, we outline key observations from our assessments, and highlight actions taken on and status of previous recommendations.

4.1 Revenue Estimation Processes Improving

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

As reflected in **Figure 3**, 2014-15 resource surcharge revenue was \$474.5 million (2014: \$436.9 million).

During 2014-15, Finance continued developing more accurate reporting models for uranium, potash, and oil and gas resource surcharge revenues. It developed and tested, using seven prior years' of data, a preliminary model for estimating uranium and potash resource surcharge revenues. It determined that this model provides reliable estimates with minimal estimation errors. By August 2015, it has not yet used this model to estimate and record resource surcharge revenue.

Finance also developed and tested several models to estimate resource surcharge revenues for oil and gas during 2014-15. It determined none of the models provided reliable results (i.e., significant estimation errors resulted) and that further work was needed. It expects an estimation model will require testing over several fiscal years to ensure the model produces reliable estimates. It plans to continue this work in 2015-16.

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



4.2 Prompt Determination of Disaster Recovery Requirements Needed

We recommended that the Ministry of Finance confirm, in writing, processes and policies that the Information Technology Office (ITO)¹⁰ 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 the Ministry of Central Services fulfills its IT security and disaster recovery requirements, Finance routinely meets with Central Services staff. It receives and reviews reports on IT security (e.g. user access, firewalls, intrusion detection) to assess whether its systems and data are secure and available.

However, we found that Finance and Central Services do not always resolve identified disaster recovery issues on a timely basis. For example, by August 2015, Finance had not determined how it plans to respond to Central Services' 2011-12 notice that Central Services was unable to conclude whether it could fully recover one of Finance's systems in the event of a disaster.¹¹ Also, Finance does not know if Central Services is capable of recovering its other critical IT systems hosted by Central Services. From 2013 to 2015, Finance and its other service providers did conduct successful disaster recovery tests on its main revenue system and its MIDAS financials system.

Also at August 2015, Finance does not have an agreement with Central Services that sets out the expected frequency of disaster recovery testing of Finance's systems and sharing of the results of such tests with Finance. Finance indicated that it plans to integrate disaster recovery testing requirements into its Memorandum of Understanding with Central Services during 2015-16.

Not requiring timely testing of disaster recovery plans and promptly resolving issues arising from the results of such tests increases the risk that Finance's critical systems (e.g., debt system, investment system) and data may not be available to provide services 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

¹⁰ Effective May 2012, the Information Technology Office (ITO) was disestablished as a separate Ministry and became the Information Technology Division of the Ministry of Central Services.

¹¹ The Ministry of Central Services last performed disaster recovery tests on some of Finance's IT systems that it hosts in 2011-12.

Staff continue not to consistently follow Finance's established procedures for removing unneeded user access promptly even though Finance has taken steps to improve its procedures and monitoring. Finance expects unneeded user access to its systems and data to be removed within one day of an employee's last day of employment.

In 2014-15, we found 8 out of 22 instances where user access to the network was not removed promptly (i.e., 2 to 339 days after last day of employment) (2013-14: 9 instances out of 18 where access removed 3 to 294 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 – Not Implemented with respect to reporting publicly on performance of investments in sinking funds

At March 31, 2015, the Government's investments in sinking funds of \$1.6 billion accounts for almost 15% of its total financial assets. **Figure 6** provides a description of investments in sinking funds.

Figure 6—Explanation of Investments in Sinking Funds and their Purpose

Investments in sinking funds are money the Government sets aside to repay its long-term debt.

Finance's main investment objective is to make sure sufficient resources are available in the sinking funds to retire debt when due. As such, when making sinking fund investment decisions, Finance considers the expected investment returns on sinking funds, risk of the investments, and desired time horizon of the investments (i.e., maturity date).

Finance invests in fixed-income securities (like provincial bonds and debentures), and short-term interest-bearing investments with staggered maturity dates. Finance holds these investments until it needs cash to repay debt. If it does not have sufficient cash from investments that recently matured, it sells some of them.

Traditionally, Cabinet has required Finance to invest amounts equal to not less than 1% of the long-term borrowings owed by the General Revenue Fund each year. Starting in 2015-16, Finance expects this requirement to double to 2% for debt pertaining to the Saskatchewan Builds Capital Plan.^a

Source: Ministry of Finance.

^a Standing Committee on Crown and Central Agencies, Hansard Verbatim Report No. 45 – April 22, 2015, p. 631.

Although Finance actively monitors the performance of its investment in sinking funds,¹² public information on such performance remains limited as compared to The Canadian Public Sector Accounting Board's *Statement of Recommended Practice on Financial Statement Discussion and Analysis (FSD&A)*.¹³ This Statement of Recommended Practice suggests governments include an analysis of the rates of return on investments

¹² Finance continued to regularly compare actual investment income to budget, and use market-based benchmarks (based on the FTSE TMX Canada Mid-Term Government Bond Index) to assess the reasonableness of returns earned on its sinking fund investments. Quarterly reports, provided to senior management, included comparisons of actual returns to the FTSE TMX index and actual investment income to budget along with reasons for differences.

¹³ The Canadian Public Sector Accounting Board provides governments with best practices for information to include in their financial statement discussion and analysis.



(e.g., comparison of planned rate of return to actual with explanations for significant differences) to further the understanding of the nature and magnitude of resources available to the government.

Currently, the Provincial Budget includes forecasted investment income as compared to budget (i.e., \$152.1 million forecast for 2014-15 compared to \$117.8 budget).¹⁴ Investment income is comprised of sinking fund earnings along with other investment income. The Budget does not disclose the amount of each of these components or planned rate of return.

The Government's Summary Financial Statements disclose information about its investments in sinking funds as set out in **Figure 7**. The Summary Financial Statements also includes total actual investment income (i.e., \$137.4 million for 2014-15; \$191.3 million for 2013-14)¹⁵ including \$83.1 million of earnings from sinking fund investments (2013-14: \$63.9 million). However, neither the Summary Financial Statements nor accompanying financial statement discussion and analysis disclose the actual rate of return on sinking fund investments.

Figure 7—Information about Investments in Sinking Funds in Summary Financial Statements

	Actual 2014	Actual 2015
	(in millions)	
Investments in Sinking Funds at March 31	\$ 1,733.6	\$ 1,614.1
Market value of Investments in Sinking Funds at March 31	1,663.3	1,637.9
Contributions to Sinking Funds in year	98.3	105.4
Redemptions of Sinking Funds in year	284.9	345.0
Sinking Fund Earnings in year	63.9	83.1
Gains on sales of investment sales (included in Sinking Fund Earnings)	23.1	55.4

Source: Government of Saskatchewan Summary Financial Statements – *Public Accounts 2014-15 Volume 1*, Schedule 8 and *Public Accounts 2013-14 Volume 1*, Schedule 9 (audited financial statements).

Not making public planned and actual rates of returns on sinking fund investments increases the risk that legislators and the public will not know whether Finance did a good job managing the Government's significant investments in sinking funds. While other Canadian provincial governments were not yet providing this information for their investments in sinking funds, some provincial crown corporations do provide this information for their investments. For example, SGI and SaskAuto Fund publishes information in its annual report to enable legislators and the public to assess its performance in managing its investments.

¹⁴ *Saskatchewan Provincial Budget 15-16*, p. 78.

¹⁵ Government of Saskatchewan Summary Financial Statements – *Public Accounts 2014-15 Volume 1*, Schedule 13, p. 68.

4.5 Key Treasury Management Procedures Documented

We recommended that the Ministry of Finance documents 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 – Implemented

During 2014-15, Finance documented promissory note procedures in conjunction with its implementation of phase 1 of its new debt management IT system. It also documented procedures over the destruction of securities, and set out user access roles for its debt management IT systems. Finance made its key treasury management procedures available to staff via its intranet and in print. It plans to further update its treasury management procedures in 2015-16 in conjunction with its planned implementation of phases 2 and 3 of its new debt management IT system.



5.0 EXHIBIT

5.1 Summary of Relevant Legislation

Finance:

The Executive Government Administration Act (effective August 15, 2014)¹⁶
The Ministry of Finance Regulations, 2007
The Corporation Capital Tax Act
The Corporation Capital Tax Regulations, 1984
The Federal-Provincial Agreement Act (repealed August 15, 2014)
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 Collections 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 Executive Government Administration Act
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)
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 Executive Government Administration Act
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)
Orders in Council issued pursuant to the above legislation

Public Employees Benefits Agency Revolving Fund:

The Executive Government Administration Act
The Financial Administration Act, 1993
Orders in Council issued pursuant to the above legislation

Public Service Superannuation Plan:

The Executive Government Administration Act
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)
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

¹⁶ *The Government Organization Act* was repealed August 15, 2014.