

Chapter 25

Saskatchewan Indian Gaming Authority Inc.

1.0 MAIN POINTS

This chapter reports the results of the annual audit of the Saskatchewan Indian Gaming Authority Inc. (SIGA) for the year ended March 31, 2015. SIGA's 2015 financial statements are reliable. SIGA complied with the authorities governing its financial-related activities. During 2014-15, SIGA implemented a new human resource plan and business continuity plan, and improved its policies over capital assets. However, it needs to make the following improvements.

To enable the preparation of accurate financial statements, SIGA must review new and/or amended lease contracts to make sure it accounts for these contracts consistent with generally accepted accounting standards. As previously reported in our *2014 Report – Volume 2*, SIGA must better protect its information technology (IT) systems and data including periodically reviewing user access to its IT systems and data.

2.0 INTRODUCTION

SIGA is a non-profit corporation established under *The Non-profit Corporations Act, 1995*. Its members are the Federation of Saskatchewan Indian Nations (FSIN), the Tribal Councils of Saskatchewan, and independent First Nations.

SIGA operates six casinos located on First Nations reserves. The casinos are:

- › Northern Lights Casino
- › Gold Eagle Casino
- › Painted Hand Casino
- › Bear Claw Casino
- › Dakota Dunes Casino
- › Living Sky Casino

Saskatchewan Liquor and Gaming Authority (Liquor & Gaming) licenses SIGA to operate these casinos. In 2002, the Government of Saskatchewan and the FSIN signed the 2002 Framework Agreement (Framework Agreement) effective from June 11, 2002 to June 11, 2027. The Framework Agreement allows for the development and operation of casinos in Saskatchewan within the parameters of the *Criminal Code* (Canada). As required by section 207 of the *Criminal Code*, Liquor & Gaming owns the slot machines located in SIGA's casinos. Accordingly, Liquor & Gaming is responsible for the overall conduct and management of the slot machines in those casinos. The revenue from the slot machines belongs to Liquor & Gaming and is calculated based on the Casino Operating Agreement.¹

¹ Liquor & Gaming and SIGA signed a Casino Operating Agreement effective from June 11, 2002 to June 11, 2027. Under the Casino Operating Agreement, Liquor & Gaming allows SIGA to deduct from slot machine revenues reasonable costs incurred in accordance with the operating policies approved by Liquor & Gaming.



2.1 Financial Overview

At March 31, 2015, SIGA held assets of \$184 million (2014: \$177 million), including capital assets of \$108 million (2014: \$95 million), and had liabilities of \$191 million (2014: \$182 million), including long-term debt of \$48 million (2013-14: \$53 million). For the year ended March 31, 2015, its net casino profit was \$83 million.

SIGA's casino operations include slot machines, ancillary operations (i.e., gift shops, restaurants, lounges, and a hotel), and table games operations. **Figure 1** shows the net casino profits SIGA made during the last five years by type.

Figure 1—SIGA Financial Results for the Five-Year Period from 2011 to 2015

Year Ended March 31	2015	2014	2013	2012	2011
(in millions)					
Slot machines operations profit	\$ 96.5	\$ 94.2	\$ 99.5	\$ 92.2	\$ 80.1
Ancillary operations loss	(10.2)	(10.7)	(10.0)	(7.5)	(11.8)
Table games operations loss	(2.2)	(3.3)	(3.0)	(3.0)	(4.2)
Unrealized (loss) gain on interest rate swaps*	(1.0)	2.1	0.3	(2.5)	0.3
Net casino profit	\$ 83.1	\$ 82.3	\$ 86.8	\$ 79.2	\$ 64.4

Source: 2010-11 to 2014-15 Saskatchewan Indian Gaming Authority Inc. annual reports.

*Unrealized (loss) gain on interest rate swaps is the amount of change in the fair value of the swaps in a fiscal year.

3.0 AUDIT CONCLUSIONS AND SCOPE

Our Office worked with Deloitte LLP, the appointed auditor, to carry out the audit of SIGA. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.²

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

- › **SIGA's financial statements are reliable**
- › **SIGA complied with the following authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Non-profit Corporations Act, 1995
The Non-profit Corporations Regulations, 1997
The Alcohol and Gaming Regulation Act, 1997
The Gaming Regulations, 2007
Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)
Proceeds of Crime (Money Laundering) Suspicious Transactions Reporting Regulations (Canada)
 2002 Framework Agreement (June 11, 2002)
 2002 Casino Operating Agreement (June 11, 2002)
 Terms and Conditions for SIGA Table Games (issued by Indigenous Gaming Regulators Inc.)
 SIGA Slot Machine Operating Procedures and Directives (issued by Liquor & Gaming)
 SIGA Operating Policies and Directives (issued by Liquor & Gaming)
 SIGA Bylaws

² See our website at www.auditor.sk.ca.

» **SIGA had effective rules and procedures to safeguard public resources except for the matters described in this chapter**

We used the control framework published by CPA Canada to make our judgments about the effectiveness of SIGA'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.

Because SIGA operates in the casino industry, it processes a significant number of cash transactions and holds a significant amount of cash in its casinos. As a result, we paid particular attention to SIGA's controls for managing cash in its casinos. This included assessing its processes for approving and recording transactions, and monitoring staff compliance with established procedures to safeguard cash. Also, because SIGA relies on computer systems to manage its operations, we assessed its controls over key information technology (IT) service providers, IT security, change management processes, and user access.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Improved Assessment of Accounting Implications of Lease Agreements Needed

SIGA has significant lease agreements with external parties for its casino buildings which come up for renewal at various dates. SIGA follows International Financial Reporting Standards (IFRS) (generally accepted accounting standards) to account for its financial activities. IFRS contains specific rules as to how to account for leases.³

In April 2014, SIGA renewed its lease agreement for one of its casinos. SIGA did not sufficiently assess the accounting implications of the changes to this agreement and as such, continued to account for this agreement as an operating lease.

In May 2015, SIGA management and its appointed auditor discussed the accounting for this agreement and determined that SIGA should have recorded this lease as a finance lease. As a result, SIGA's 2014-15 draft financial statements presented for audit contained errors (i.e., SIGA had not recorded its \$15 million obligation and related asset, and had not recorded interest and depreciation expenses of \$354,000). SIGA made corrections to the final audited financial statements to account for the renewed lease properly.

Lack of an effective process to assess the accounting implications of new and/or amended lease arrangements on a timely basis increases the risk of errors in SIGA's financial statements. Also, because certain of SIGA's financial results are recorded in Liquor & Gaming's financial statements, errors in SIGA's statements increase the risk of errors in Liquor & Gaming's statements. Without accurate financial statements, senior management and the Board may not have the information they need to make informed decisions.

³ A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. (CPA Canada. *CPA Canada Handbook – Accounting Part 1, International Accounting Standard 17 Leases*).



1. We recommend that Saskatchewan Indian Gaming Authority Inc. determine the accounting implications of new or amended lease agreements and document its assessment.

4.2 Review of User Access Needed

We recommended that Saskatchewan Indian Gaming Authority Inc. perform regular reviews of its computer application user accounts. (2010 Report – Volume 2; Public Accounts Committee agreement January 20, 2011)

Status – Partially Implemented

During 2014-15, SIGA continued to not complete reviews of IT user access for its key applications in accordance with its policies. For example, we noted that it had not removed user access of eight former employees (2013-14 – 21 former employees with user access). Some of these individuals had administrative privileges⁴ for key business applications.

Timely reviews of IT user access are necessary so that access granted is consistent with each employee's job responsibilities and is appropriate. Lack of reviews of IT user access increases the risk of unauthorized access to and inappropriate modifications of systems and data.

4.3 Business Continuity Plan Prepared

We recommended that Saskatchewan Indian Gaming Authority Inc. prepare a complete disaster recovery plan and assess the need for a business continuity plan. (2008 Report – Volume 3; Public Accounts Committee agreement March 11, 2009)

Status – Implemented

SIGA relies significantly on its IT systems to operate. A business continuity plan (BCP) helps organizations properly recover critical business functions in the event of a disaster. A disaster recovery plan is a key component of an overall BCP. For SIGA, a complete BCP would include emergency preparedness planning for all of SIGA's six casinos.

As previously reported,⁵ SIGA has a disaster recovery plan for its IT systems; it tested this plan in 2013 and last updated it in April 2014. In 2014-15, SIGA developed an Emergency and Continuity Management Program (ECMP). The core components of the ECMP include an Incident Management Plan, an Emergency Management Plan, a Continuity Management Plan, an Information Technology Disaster Recovery Plan and an

⁴ Administrative privileges give users the ability to install software and change configuration settings.

⁵ Provincial Auditor 2014 Report – Volume 2, Chapter 22, Saskatchewan Indian Gaming Authority Inc., p. 133.

Emergency and Continuity Communications Plan. Also in 2014-15, SIGA developed individual emergency response plans for each of its casinos. SIGA's senior management approved the ECMP in July 2015. SIGA conducted testing of its emergency response plans in June 2015.

4.4 Human Resource Plan Prepared

We recommended that Saskatchewan Indian Gaming Authority Inc. complete and implement its human resource plan. (2003 Report – Volume 3; Public Accounts Committee agreement June 29, 2004)

Status – Implemented

In 2014-15, SIGA implemented a new human resource plan (corporate workforce plan). The plan included an environmental scan of the current labour market, statistics about SIGA's current workforce, current gaps in SIGA's workforce, and action plans to help address those gaps.

4.5 Policies to Control Capital Assets Followed

We recommended that Saskatchewan Indian Gaming Authority Inc. follow its policies to control capital assets. (2010 Report – Volume 2; Public Accounts Committee agreement January 20, 2011)

Status – Implemented

The majority (approximately 93% or \$101 million) of SIGA's capital assets consist of costs incurred to develop new casinos as well as other leasehold improvements made to facilities that SIGA leases (i.e., its head office and casinos). Typically, there is low risk that these types of assets do not exist (i.e., the nature of these assets is that they cannot be readily removed or disposed of). The remaining capital assets consist of furniture and equipment (e.g., office furniture, IT equipment, kitchen equipment, table games). These assets present a higher risk of being disposed of, recorded at an inappropriate amount or misappropriated without ready detection.

In late 2014, SIGA revised its policy for disposing of capital assets, and then complied with the updated policy. SIGA also complied with its policies to acquire and record capital assets. SIGA's policies also require periodic counts of capital assets with a comparison of the counts to the accounting records to help ensure that capital assets recorded in its accounting records exist. Management has determined which assets are at risk, the frequency and timing of required counts for those assets, and plans to count these assets at a future date consistent with its policy.

