

Chapter 27

Saskatchewan Research Council

1.0 MAIN POINTS

Saskatchewan Research Council (SRC) had reliable financial statements for the year ended March 31, 2015. SRC had effective rules and procedures to safeguard public resources except that it did not follow its established processes to verify the bonus payouts to its senior executives. SRC complied with the authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except it did not obtain the required Lieutenant Governor in Council approval of the remuneration it pays to its Board members or Treasury Board's approval, as required by law, of the change in its bank account.

2.0 INTRODUCTION

SRC was established pursuant to section 3 of *The Research Council Act*. SRC's mission is to help the people of Saskatchewan strengthen the economy with quality jobs and a secure environment. It does this through research, development and transfer of innovative scientific and technological solutions, applications and services.

As set out in **Figure 1**, in 2014-15, SRC had revenues of \$72.7 million and expenses of \$66.3 million. At March 31, 2015, it held assets of \$54.6 million including tangible capital assets of \$27.4 million.

Figure 1 – Revenues and Expenses

	Actual 2014-15	Actual 2013-14
	(in millions)	
Contract Revenue	\$ 52.3	\$ 39.3
Transfer from General Revenue Fund	20.4	19.7
Total Revenue	\$ 72.7	\$ 59.0
Salaries and Benefits	27.1	31.6
Contract Services	20.5	10.5
Accommodation Charges	7.8	8.8
Supplies	5.5	5.3
Depreciation of Property, Plant and Equipment	4.2	4.6
Travel, Training and Education	1.2	1.5
Total Expense	\$ 66.3	\$ 62.3

Source: Audited March 31, 2015 financial statements.

SRC's financial statements include the accounts of TecMark International Commercialization Inc., its wholly-owned subsidiary (TecMark). TecMark was



incorporated under *The Business Corporations Act (Saskatchewan)* in 1996. It holds certain patents and other non-tangible assets of SRC.

3.0 AUDIT CONCLUSIONS AND SCOPE

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

- › **SRC had reliable financial statements**
- › **SRC had effective rules and procedures to safeguard public resources except for the matters reported in this chapter**
- › **SRC complied with the following authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter**

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

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

We focused our audit effort on the following areas. We evaluated the accuracy and reasonableness of SRC's estimated provision for decommissioning of the SLOWPOKE¹ reactor including the reasonableness of key assumptions, and any changes in assumptions used.

To evaluate the appropriateness of revenue earned during the year and unearned revenue recorded at year-end, we reviewed the accounting for significant contracts entered into by SRC throughout the year. In addition, we reviewed the details of these contracts and the correctness of accounting treatment for each contract. To evaluate the appropriateness of deferred revenue, we assessed the continuity of amounts deferred and recalculated related amortization. We tested whether SRC followed its established procedures for appropriate cut-off of unearned and deferred revenue accounts.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Chief Executive Officer Bonus Overpayment

SRC did not follow established processes to verify the calculation of the long-term incentive and short-term incentive payouts to senior executives. Each year,

¹ SLOWPOKE (or Safe LOW-Power Kritical Experiment) is a low power nuclear reactor used primarily as an analytical tool for commercial analysis and research. <http://blog.src.sk.ca/environment/research-reactor-valuable-industry-tool/> (8 September 2015).

management is to calculate and the Board is to review and approve these payouts to SRC senior executive (e.g., President & CEO).

In April 2014, the SRC Board determined and approved the long-term incentive (LTI) payout to SRC's President & CEO. SRC paid the approved amount without verifying the accuracy of the calculation of the amounts. In 2014-15, SRC identified that an error was made in the calculation of the April 2014 LTI, resulting in an overpayment of approximately \$130,000 to SRC's President & CEO. SRC recovered this overpayment in full by April 2015.

Not having a second check of the LTI payout calculation increases the risk of errors in the calculation; also, if overpayments of bonuses occur, they may not be recoverable resulting in a loss to SRC.

1. **We recommend that the Saskatchewan Research Council follow its processes to review and verify incentive bonuses to its senior executives prior to paying them out.**

4.2 Bank Account Changes Need Approval

*The Research Council Act (Act)*² requires that all money appropriated by the Legislature for the purposes of this Act be deposited in a chartered bank designated by Treasury Board.

In September 2012, SRC changed its bank account without seeking or obtaining Treasury Board's approval. As a result, SRC did not comply with the Act.

2. **We recommend that the Saskatchewan Research Council obtain Treasury Board approval, as required by law, for the use of its bank account.**

4.3 Board Remuneration Needs Proper Approval

We recommended that the Saskatchewan Research Council obtain Lieutenant Governor in Council approval, as required by law, for the remuneration it pays to its Board members. (2014 Report – Volume 2; Public Accounts Committee agreement September 17, 2015)

Status – Not Implemented

At March 31, 2015, SRC had not yet obtained appropriate approval of its board remuneration rates. During 2014-15, SRC paid its board approximately \$120,000 for remuneration.

² Section 15 of *The Research Council Act*.



*The Research Council Act (Act)*³ specifies that “Each member of the council who is not a government employee shall be paid any remuneration for his services and allowances for travelling and other expenses that may be determined by the Lieutenant Governor in Council.” 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.

In November 2009, Treasury Board approved an increase in board remuneration rates for members of SRC’s Board and SRC has used these increased rates to pay its Board members since that time. SRC has not properly sought or obtained the Lieutenant Governor in Council’s approval of this increase in rates. As such, the rates it pays its Board have not been approved as required by its Act, and have not been made public.

4.4 Losses Reported

We recommended that the Saskatchewan Research Council report losses resulting from fraud or potential illegal acts as required by the *Financial Administration Manual*. (2014 Report – Volume 2; Public Accounts Committee agreement September 17, 2015)

Status – Implemented

In 2013-14, SRC incurred a loss from the sale of assets that SRC had consigned to a third party. In 2014-15, SRC subsequently reported the loss to the Provincial Comptroller as required by the *Financial Administration Manual*.

³ Section 6.