

Chapter 18

Modernizing Government Budgeting and Financial Reporting

1.0 MAIN POINTS

In our 2013 *Special Report – The Need to Change, Modernizing Government Budgeting and Financial Reporting in Saskatchewan* (2013 Special Report), we called on the Government to modernize its budgeting and financial reporting practices. We made 11 recommendations.

We are pleased to report that, since 2013, the Government focuses on summary budgeting and reporting. It publishes a Summary Budget, quarterly interim summary reports, and audited Summary Financial Statements. By focusing its financial information on summary budgeting and reporting, the Government reports its plans and results in a way that captures the full nature and extent of its financial activities.

The Government appropriately no longer publishes a separate budget, quarterly interim reports, or audited financial statements for the General Revenue Fund. Not providing this second set of information has helped clarify the Government's financial situation to legislators and the public.

The Government recognizes changes to the law are necessary to complete its transition to summary budgeting and financial reporting. Such changes will help remove confusion, and make summary budgeting and financial reporting practices sustainable.

2.0 INTRODUCTION

This chapter describes our first follow-up of the Government's actions on the recommendations we made in 2013 relating to modernizing its budgeting and financial reporting.

Our 2013 Special Report reported that overall budgeting and financial reporting practices used in 2013 created confusion for legislators and the public. It also reported that related Saskatchewan legislation was out of date and out of sync with other provinces. At that time, the Government used two budgets and two sets of audited financial statements to explain its financial performance.

To conduct this review engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To do our follow-up, we discussed with Ministry of Finance management the progress made in meeting our recommendations. We also reviewed legislative changes, key documents, manuals, and publications.



3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at April 14, 2016, and the Government's actions up to that date. We found that the Government has made progress to address our recommendations, but more work remains.

3.1 Only Summary Budget and Financial Statements Published

We recommended that the Government of Saskatchewan provide information on planned revenues and expenses in its Summary Budget using the same accounting policies and format as used for the Summary Financial Statements.

(2013 Special Report; Public Accounts Committee agreement June 17, 2015)

Status – Implemented

Since March 2014, the Government has presented a single provincial budget. Included in the provincial budget are three financial statements (i.e., budget, and statements of accumulated surplus and change in net debt), and four financial schedules (schedules of public debt, pension liabilities, tangible capital assets, and revenues).

The *Saskatchewan Provincial Budget 15-16 – Keeping Saskatchewan Strong* (Summary Budget) includes the Government's planned revenues and expenses (i.e., budget) using the same accounting policies and format as the audited Summary Financial Statements with the following exception.

As the Government disclosed in this Summary Budget and most of the related budget documents, the budget did not include all of the pension expense in the determination of the annual surplus. Rather, it showed the impact of the difference in accounting as an "Adjustment to Account for Pension Costs on an Accrual Basis" in the other statements, and the schedule of pension liabilities. For 2015-16, this adjustment was \$820.8 million.¹ The Government published its reasons for this exception.²

While the Government has clearly identified this exception and explained its rationale, we encourage the Government to limit such exceptions to avoid misunderstandings and to facilitate easy comparisons of plans to actual results.

¹ www.finance.gov.sk.ca/budget2015-16/201516Budget.pdf pp. 75 and 77. (14 April 2016).

² Ibid. p. 43. "Because of the volatile, long-term and non-cash nature of the pension accrual adjustment, it is reported separately so as to not influence annual spending and taxation policy."

We recommended that the Government of Saskatchewan seek changes to current legislation to require the auditing and publication of only the Summary Financial Statements for the Government of the Province of Saskatchewan. (2013 Special Report; Public Accounts Committee agreement June 17, 2015)

Status – Implemented

In May 2014, the Legislative Assembly amended *The Financial Administration Act, 1993*. It removed the legal requirement to prepare and publish audited financial statements for the General Revenue Fund. Starting with the 2013-14 fiscal year, the Government only publishes audited Summary Financial Statements.

3.2 Summary Financial Statement Discussion and Analysis Expanded

We recommended that the Government of Saskatchewan expand the financial statement discussion and analysis about the Summary Financial Statements included in the Public Accounts – Volume 1 to include more detailed analysis of differences between budget and actual as well as reasons for trends in key financial statement items and indicators. (2013 Special Report; Public Accounts Committee agreement June 17, 2015)

Status – Implemented

Starting with the 2013-14 fiscal year in conjunction with its focus on summary financial reporting, the Government only publishes financial statement discussion and analysis (FSDA) for the Summary Financial Statements. See **Figure 1** for information reported in 2014-15.

Figure 1 – Financial Statement Discussion and Analysis in the 2014-15 Public Accounts

The 2014-15 Public Accounts – Volume 1's FSDA:

- ▶ Provides high-level comparisons of budget to actual results and of actual results to the prior year along with more detailed comparisons by type of revenue (e.g., taxation revenue) and expense (e.g., health)
- ▶ Describes the sources and uses of cash
- ▶ Includes five-year comparisons of expenses by object (e.g., salaries and benefits), financial assets, liabilities, net book value of capital assets, and investments in infrastructure
- ▶ Includes ten-year comparisons or trends of annual surplus/deficit, public debt, debt charges, and for key ratios that provide insight into the Government's financial condition (e.g., net debt as % of gross domestic product)

Source: www.finance.gov.sk.ca/paccts/paccts15/compendium/reports/Volume1-2014-15.pdf (14 April 2016).

The content of Saskatchewan's 2014-15 FSDA is generally comparable with some other provincial governments (e.g., British Columbia, Manitoba).³ While Saskatchewan's FSDA is generally comparable, we encourage the Ministry of Finance to continue to actively monitor current practice, and periodically update the FSDA, as needed, to reflect best practice.

³ We compared to British Columbia, Alberta, Manitoba, and Ontario.



3.3 Aligning Laws with Current Budgeting and Financial Reporting Practices Needed

We recommended that the Government of Saskatchewan seek changes to:

- ▶ *The Financial Administration Act, 1993* to require the use of Canadian public sector standards established by the Canadian Public Sector Accounting Board in preparation of the Summary Financial Statements.
- ▶ Legislation that would require it to provide the Legislative Assembly with a Summary Budget (i.e., budget reflecting the activities of the entire Government) and consider providing a multi-year Summary Budget. (2013 Special Report; Public Accounts Committee agreement June 17, 2015)

Status – Not Implemented

The Government uses Canadian public sector accounting standards to prepare the Summary Financial Statements and prepares a Summary Budget including some multi-year information even though it is not required by law to do so.

As discussed in our 2013 Special Report, embedding these practices into law would help ensure that legislators and the public continue to receive quality financial information and the information they need to understand the Government's plans and to hold it accountable.

Placing the requirement to use Canadian public sector standards to prepare the Summary Financial Statements into law would be consistent with requirements placed on Saskatchewan municipalities and the Government of the Province of British Columbia (BC). Since 2005, laws require Saskatchewan municipalities to prepare their financial statements using Canadian public sector accounting standards.⁴ At April 2016, BC is the only province with this requirement enshrined in law.

In April 2016, Ministry of Finance officials indicated that, as part of the Government's ongoing transition to summary budgeting and reporting, they have developed options regarding legislative changes for the Government's consideration.

Also, the content of Saskatchewan's multi-year budget information is less than that of some other provincial governments in some areas.⁵ For instance, it does not provide multi-year information for the following:

- ▶ Detailed information on planned revenues and expenses for all years
- ▶ Detailed information on planned financial assets (e.g., cash, investment in government business enterprises), liabilities (e.g., accounts payable, pension liabilities), non-financial assets (e.g., tangible capital assets), and accumulated surplus

⁴ *The Municipalities Act* (s. 185), *The Cities Act* (s. 155), *The Northern Municipalities Act, 2010* (s. 207).

⁵ Saskatchewan, as compared to some other provincial governments, provides one additional future year of information for planned total revenues, total expenses, and public debt.

Figure 2 sets out multi-year information included in the Government's 2015-16 Summary Budget.⁶

Figure 2—Multi-year Information Included in the 2015-16 Summary Budget

Information Provided (page number)	Time period
Government's medium-term financial outlook (total revenue, total expense, contingency, and surplus) (p. 51)	Budget for 2015-16 and targets for three subsequent years
Public debt by type (e.g., general revenue fund operating debt, government business enterprise debt) (p. 57)	2016 and three subsequent years
Core Capital Plan for government ministries and some, but not all, agencies (pp. 22, 24, 25)	Budget for 2015-16 and targets for three subsequent years
Debt as a percentage of Gross Domestic Product (GDP) (p. 58)	2016 and three subsequent years
Various economic assumptions (e.g., inflation rate, GDP, interest rates) (p. 38)	2016 and three subsequent years
Various commodity price assumptions (e.g., oil prices, oil production, potash price) (pp. 39, 50)	2016 and three subsequent years

Source: www.finance.gov.sk.ca/budget2015-16/201516Budget.pdf (14 April 2016).

We encourage the Government to consider providing additional information as part of its Summary Budget. Giving legislators and the public additional information may lead to more informed public debate about the Government's plans.

3.4 *The Growth and Financial Security Act Under Review*

We recommended that the Government of Saskatchewan seek changes to:

- Legislation that would discontinue the preparation and publication of a budget for the General Revenue Fund. (The preparation and publication of the Estimates would continue.)
- *The Growth and Financial Security Act* to eliminate interim reporting on the General Revenue Fund budget and to require quarterly public reporting on the Summary Budget.

(2013 Special Report; Public Accounts Committee agreement June 17, 2015)

Status – Not Implemented

The Government has appropriately transitioned to summary budgeting and financial reporting. Since 2014-15, the Government no longer publishes a General Revenue Fund budget, or interim reports on the General Revenue Fund as required under *The Growth and Financial Security Act*. As our 2013 Special Report indicated, these requirements were out of sync with other provinces and did not make sense.

In April 2016, Ministry of Finance officials indicated that, as part of the Government's ongoing transition to summary budgeting and reporting, they have identified potential changes to the law for the Government's consideration.

⁶ www.finance.gov.sk.ca/budget2015-16/201516Budget.pdf (14 April 2016).



We recommended that if balanced budget legislation is desired, the Government of Saskatchewan seek changes to current legislation to use the Summary Budget as the basis for balanced budgeting.

We recommended that the Government of Saskatchewan seek changes to *The Growth and Financial Security Act* to:

- ▶ Eliminate the use of “rainy day” funds for balancing budgets in conjunction with its elimination of the budget for the General Revenue Fund.
- ▶ Publish a debt management plan that includes all of the debt of the Government.
- ▶ Eliminate the existence of the Debt Retirement Fund.

(2013 Special; Public Accounts Committee agreement June 17, 2015)

Status – Not Implemented

Our 2013 Special Report indicated *The Growth and Financial Security Act* places fiscal management requirements on the financial activities of the General Revenue Fund only. Also as explained in our 2013 Special Report, placing fiscal management requirements on a part of the Government’s financial activities (e.g., General Revenue Fund) does not make sense.

With the Government’s use of summary budgeting, it has eliminated its use of rainy day funds. As noted in **Figure 2**, the 2015-16 Summary Budget included information on summary public debt by type for the current year and three subsequent years (e.g., a debt management plan). In the *Public Accounts 2014-15 Volume 2*, the Government continued to report on the Debt Retirement Fund.⁷

In April 2016, Ministry of Finance officials indicated that, as part of the Government’s ongoing transition to summary budgeting and reporting, they have developed options regarding legislative changes for the Government’s consideration.

Not seeking changes to *The Growth and Financial Security Act* within a reasonable timeframe may cause unnecessary confusion and misunderstandings. For example, 2016 media articles inaccurately suggested the Government was not complying with the law when it forecasted a summary deficit.^{8,9} This reflects a misunderstanding that laws currently in place require balancing of the Summary Budget.

⁷ The Debt Retirement Fund is an accounting of the surpluses of the General Revenue Fund since 2008. The Fund has no underlying assets. www.finance.gov.sk.ca/paccts/paccts15/compendium/reports/2014-15Volume2.pdf p. 264. (14 April 2016).

⁸ <http://leaderpost.com/news/politics/ndp-wants-saskatchewan-legislature-recalled-to-deal-with-deficit>; <http://leaderpost.com/opinion/editorials/premier-brad-wall-had-little-political-option-with-saskatchewan-government-deficit-but-hes-ignored-balanced-budget-legislation> (14 April 2016).

⁹ *Saskatchewan Budget Update 15-16 – Budget Update and Four Year Forecast*. www.saskatchewan.ca/government/news-and-media/2016/february/29/third-quarter p. 16. (14 April 2016).