

Chapter 7

Finance

1.0 MAIN POINTS

This chapter reports the results of our annual audit of the Ministry of Finance (Finance) and its 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 2015-16 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 reported in this chapter.

Finance administers resource surcharge revenues and continues to develop reporting models to estimate these revenues during the year. Finance needs to complete its development and implementation of these models to accurately estimate and record these revenues.

Also, Finance did not have an adequate agreement with one of its IT service providers, the Ministry of Central Services (Central Services). Its current agreement does not set out the expected frequency of Central Services' disaster recovery testing of Finance's systems, and sharing of those test results with Finance. At March 2016, Finance did not know if Central Services was capable of fully recovering certain of its critical IT systems that Central Services hosts.

In addition, Finance continued to not publicly report planned and actual rates of return of its \$1.7 billion of investments in sinking funds. The Government uses these investments to repay its debt when it becomes due.

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 Fund² and the General Revenue Fund)³ provide the Legislative Assembly with audited financial statements; some also provide an annual report.

Figure 1—Agencies with March 31 Year-End

General Revenue Fund (GRF) ^A	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

^A 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.

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	

¹ www.finance.gov.sk.ca/PlanningAndReporting/2015-16/2015-16FinanceAnnualReport.pdf (3 October 2016).

² This Fund was wound up effective April 1, 2016.

³ 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.

2.2 Financial Overview

As shown in **Figures 3, 4, and 5**, for the year ended March 31, 2016, Finance administered revenues of \$8.9 billion (2015: \$8.7 billion), and expenses of \$0.6 billion (2015: \$0.6 billion). It managed gross public debt⁴ of \$14.4 billion (2015: \$12.7 billion) and investments in sinking funds⁵ of \$1.7 billion (2015: \$1.6 billion).⁶

Figure 4 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 2015-16	Actual 2015-16
	(in millions)	
Taxation	\$ 6,135.6	\$ 5,941.8
Non-renewable resources – resource surcharge	386.7	400.6
Transfers from government entities	786.8	832.6
Other own-source revenue	273.2	276.9
Transfers from the Federal Government	1,507.7	1,492.6
Total	\$ 9,090.0	\$ 8,944.5

Source: Ministry of Finance Annual Report for 2015-16.

Figure 4—Actual Expenses by Object

	Estimates 2015-16	Actual 2015-16
	(in millions)	
Debt servicing	\$ 285.0	\$ 264.5
Salaries and benefits (includes pensions)	329.5	320.3
Goods and services	27.2	26.2
Capital asset amortization	0.6	0.5
Total Expense	\$ 642.3	\$ 611.5

Source: Saskatchewan Provincial Budget 15-16 Estimates (votes 12 and 18); Ministry of Finance 2015-16 financial records.

Figure 5—Actual Expenses by Major Program

	Estimates 2015-16	Actual 2015-16
	(in millions)	
Public service pension and benefits ^A	\$ 303.8	\$ 296.6
Revenue division	37.8	35.5

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 2015-16 Volume 1*, Schedule 8, p. 73.

⁷ www.finance.gov.sk.ca/PlanningAndReporting/2015-16/2015-16FinanceAnnualReport.pdf (3 October 2016).



	Estimates 2015-16	Actual 2015-16
Provincial comptrollers	11.5	9.3
Central management and services	6.5	6.3
Budget analysis	5.4	5.0
Treasury and debt management	2.1	1.9
Personnel policy secretariat	0.5	0.5
Miscellaneous	0.1	0.1
Total Appropriation – Vote 18	\$ 367.7	\$ 355.2
Capital asset acquisitions	(11.0)	(8.7)
Amortization of capital assets	0.6	0.5
Total Expense – Vote 18	\$ 357.3	\$ 347.0
Debt servicing appropriation and expense – Vote 12	285.0	264.5
Total Expense	\$ 642.3	\$ 611.5

Source: Saskatchewan Provincial Budget 15-16 Estimates (votes 12 and 18); Ministry of Finance Annual Report for 2015-16; Ministry of Finance 2015-16 financial records.

^A 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 2015-16, the audited Summary Financial Statements include an increase in pension and benefits costs for defined pension and benefit plans sponsored by the Ministry of Finance of \$283.4 million to account for these costs on an accrual basis.

3.0 AUDIT CONCLUSIONS AND SCOPE

In our opinion, for the year ended March 31, 2016:

- › 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 Section 5.0 governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing
- › Each agency's⁸ financial statements are reliable

We used the control framework published by CPA Canada to make our judgments about the effectiveness of Finance 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 the revenue listed in **Figure 3** and expenses listed in **Figures 4** and **5**, to keep reliable financial records, and to prepare reliable financial reports.

⁸ 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.

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 assessed its controls over key IT service providers, security, change management processes, and user access.

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2016, Cabinet approved, through Orders in Council (special warrants), spending of \$184.5 million; the Legislative Assembly later approved these amounts through appropriation acts.

4.0 KEY FINDINGS AND RECOMMENDATIONS

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 Need Improvement

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**, 2015-16 resource surcharge revenue was \$400.6 million (2014-15: \$474.5 million).

In the prior year, Finance developed a more accurate reporting model for uranium and potash resource surcharge revenues. It determined that the model provided reliable estimates on an annual basis with minimal estimation errors, but does not provide reliable estimates on a quarterly basis. By August 2016, Finance had not yet used this model to estimate and record resource surcharge revenue.

During 2015-16, Finance continued to develop and test several models to estimate resource surcharge revenues for oil and gas. 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 2016-17.

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)⁹ 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

We found that Finance and Central Services did not always resolve identified disaster recovery issues on a timely basis. For example, by August 2016, 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.¹⁰ Also, Finance does not know if Central Services is capable of recovering certain of its other critical IT systems hosted by Central Services.

During 2015-16, Finance and its other service providers continued to conduct successful disaster recovery tests on its main revenue system and the central system used by ministries for payments, payroll, and financial reporting (MIDAS).

Also, at August 2016, Finance did not have an adequate agreement with Central Services. Its existing agreement does not set out the expected frequency of Central Services' 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 2016-17.

Not requiring timely testing of disaster recovery plans and promptly resolving issues, arising from the results of such tests, increases the risk that certain of 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

⁹ 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.

¹⁰ The Ministry of Central Services last performed disaster recovery tests on some of Finance's IT systems that it hosts in 2011-12.

Finance expects unneeded user access to its systems and data to be removed within one day of an employee's last day of employ. However, staff did not consistently follow Finance's established procedures for removing unneeded user access promptly. This increases the risk of inappropriate access and unauthorized changes to Finance's IT systems and data.

In 2015-16, we found 5 of 20 instances where user access to the network was not removed promptly (i.e., 11 to 73 days after last day of employ) (2014-15: 8 instances of 22 where access was removed 2 to 339 days after last day of employ).

During 2015-16, Finance monitored network access on a bi-weekly basis by reviewing a report showing employees who had not accessed the network in 30 days (inactive users). It used these reviews to identify where it missed requesting removal of user access, and to make such requests. Finance expects this process to result in more prompt removal of unneeded user access. However, given that the report only identifies users who are inactive after 30 days, this process alone will not result in timely removal of unneeded user access. As a result of its monitoring process, Finance identified four employees who had left the employ of the Ministry that had unneeded user access to its key systems and data. For these four employees, access was removed 27 to 50 days after the last day of employ.

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, 2016, the Government's investments in sinking funds of \$1.7 billion accounted for almost 15% of its total financial assets.¹¹ **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 optimize resources 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 is required to invest 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.

¹¹ Government of Saskatchewan Summary Financial Statements – *Public Accounts 2015-16 Volume 1*, Schedule 8, p. 73.



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 (e.g., comparison of planned rate of return to actual with reasons 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., \$120.1 million forecast for 2015-16 compared to \$122.4 million 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 rates 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 include total actual investment income (i.e., \$101.1 million for 2015-16; \$137.4 million for 2014-15)¹⁵ including \$48.6 million of earnings from sinking fund investments (2014-15: \$83.1 million).¹⁶ However, as previously reported, neither the Summary Financial Statements nor accompanying FSD&A disclose the actual rate of return on sinking fund investments.

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

	Actual 2015	Actual 2016
	(in millions)	
Cost of Investments in Sinking Funds at March 31	\$ 1,614.1	\$ 1,705.4
Market value of Investments in Sinking Funds at March 31	1,637.9	1,679.8
Contributions to Sinking Funds in year	105.4	103.8
Redemptions of Sinking Funds in year	345.0	67.6
Sinking Fund Earnings in year	83.1	48.6
Gains on sales of investment sales (included in Sinking Fund Earnings)	55.4	15.3

Not making public planned and actual rates of return 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 Saskatchewan Crown corporations do for their investments. For example, SGI and Sask Auto Fund each publish information in their

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.

¹⁴ *Saskatchewan Provincial Budget 16-17*, p. 70.

¹⁵ Government of Saskatchewan Summary Financial Statements – *Public Accounts 2015-16 Volume 1*, Schedule 13, p. 78.

¹⁶ Government of Saskatchewan Summary Financial Statements – *Public Accounts 2015-16 Volume 1*, Schedule 8, p. 73.

annual reports to enable legislators and the public to assess their performance in managing their investments.

5.0 SUMMARY OF RELEVANT LEGISLATION

Finance:

The Executive Government Administration Act
The Ministry of Finance Regulations, 2007
The Corporation Capital Tax Act
The Corporation Capital Tax Regulations, 1984
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, 2015
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 (section 13)
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 Executive Government Administration Act
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

