

Chapter 44

Saskatchewan Liquor and Gaming Authority – Liquor Procurement

1.0 MAIN POINTS

By August 2017, Saskatchewan Liquor and Gaming Authority (SLGA) improved, in part, its processes to buy liquor for distribution and resale. It implemented two of the three recommendations initially made in our 2012 audit of its processes to procure liquor.

SLGA developed and started using a *Liquor Category Strategy*. This Strategy and related procedures help it identify and select products that meet customer needs. Also, it assists SLGA in monitoring the product sales performance.

However, SLGA drafted, but did not finalize, a policy to obtain assurance that liquor products sold in Saskatchewan are safe to drink and contain their stated alcohol content. As of August 2017, SLGA did not confirm the safety of liquor products it distributes. This increases the risk of it distributing liquor products that may be unsafe to consume and litigation against SLGA if such an event occurred.

2.0 INTRODUCTION

Our *2012 Report – Volume 1*, Chapter 17 concluded that SLGA had effective processes in place to procure liquor other than the areas reflected in the seven recommendations.¹ By March 2015, SLGA had implemented four recommendations including two implemented by September 2013.^{2,3}

This chapter describes the results of our third follow-up of SLGA's progress on the remaining three recommendations.

Under *The Alcohol and Gaming Regulation Act, 1997 (Act)*,⁴ SLGA is responsible for distributing, controlling, and regulating liquor and gaming in Saskatchewan. SLGA aims to achieve a balance between generating revenue, promoting responsible use of alcohol, and providing customers with product selection and value. In 2016-17, SLGA generated gross revenue of \$641 million from liquor sales.^{5,6}

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (including CSAE 3001). To evaluate SLGA's progress towards meeting our recommendations, we used the relevant criteria from the original audit. SLGA's management agreed with the criteria in the original audit.

¹ *2012 Report – Volume 1*, Chapter 17 (pp. 145-157).

http://auditor.sk.ca/pub/publications/public_reports/2012/Volume_1/2012v1_17_LiquorProcurement.pdf (10 October 2017).

² *2013 Report – Volume 2*, Chapter 47 (pp. 317-320).

http://auditor.sk.ca/pub/publications/public_reports/2013/Volume_2/2013v2_47_SLGA-Procure.pdf (10 October 2017).

³ *2015 Report – Volume 2*, Chapter 54 (pp. 359-362). <https://auditor.sk.ca/publications/public-reports/item?id=140> (10 October 2017).

⁴ *The Alcohol and Gaming Regulation Act, 1997*, s. 12.

⁵ Saskatchewan Liquor and Gaming Authority, *2016-17 Annual Report*, p. 3.

⁶ *Ibid.*, p. 19.



Our audit approach primarily included examining SLGA's policies and procedures relevant to buying liquor for distribution and resale, and discussing them with management. We examined SLGA's trend analysis and category performance assessments (i.e., category analysis). We also tested a sample of category analysis performed by staff to determine whether they followed SLGA's established policies and procedures.

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 August 31, 2017, and SLGA's actions up to that date. We found that SLGA implemented two recommendations and is making progress towards implementing the remaining recommendation.

3.1 Formal Assurance on Liquor Product Safety Needed

We recommended that Saskatchewan Liquor and Gaming Authority obtain formal assurance that liquor products sold in Saskatchewan are safe to drink and contain their stated alcohol content. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Partially Implemented

SLGA does not require and has not obtained formal assurance or tested liquor products sold in Saskatchewan to check that they are safe to drink and contain their stated alcohol content. As of August 2017, it had a draft policy that would apply to approximately less than one-third of its products (e.g., those not tested by other Canadian liquor boards) and had not yet determined an approach for locally manufactured products.

For about 70% of the liquor products that SLGA distributes, management indicated they plan to rely on testing of other Canadian liquor boards without having a formal process to obtain the detailed results of those tests. Rather management plans to use blanket statements on those boards' websites about the safety of the products SLGA sells or distributes. Management did not have evidence that they actively monitored the websites. In addition, they did not have evidence to show whether the other Canadian liquor boards tested the products that SLGA distributes.

By August 2017, SLGA had drafted but had not yet approved or implemented its *Beverage Alcohol Quality Assurance Policy* (Policy). SLGA expected to finalize and implement the Policy in late 2017.

The Policy takes a risk-based approach to determine beverage alcohol products and categories (e.g., flavoured wines, liqueurs, and spirits) that require testing and certification. To develop this Policy, SLGA consulted with and reviewed policies and procedures of other provinces and obtained legal advice on their obligations and rights relating to defective liquor products.

Under its draft Policy, SLGA plans to:

- Each year, for a sample of liquor products not already certified by another Canadian liquor board, have an SLGA-approved accredited laboratory (e.g., Liquor Control Board of Ontario) test and certify the products
- Require product testing and certification for all new liquor products; SLGA plans to obtain from suppliers product safety information for all new products that it plans to sell
- For products it does not normally distribute (e.g., special order of a specific wine for customers), require customers to sign waivers acknowledging and accepting that the product they are buying may not have been tested or meet recognized quality assurance standards
- Not require testing for some products (e.g., beer and malt-based products), as it expects these to meet major breweries' testing procedures

At August 2017, SLGA continued to work on its approach for locally manufactured products. These products account for about 4% of the products it sells (about 90).

Some consumers use the alcohol content listed on labels to help them drink responsibly. At times, the content listed on the label may be incorrect. For example, in May 2017, the Liquor Control Board of Ontario issued a recall after discovering some bottles of Bombay Sapphire London Dry Gin had an alcohol content of 77% and not 40% as listed on the bottle. It reported that the product was not safe for consumption.⁷

Not having formal assurance on product safety increases the risk of SLGA distributing unsafe liquor or liquor with incorrectly marked alcohol content. This in turn increases the risk to the health and safety of liquor consumers, and litigation against SLGA in event it distributed unsafe liquor products.

3.2 Liquor Procurement Strategy Implemented

We recommended that Saskatchewan Liquor and Gaming Authority document what it uses and how it uses the information it has to ensure the product selection meets its customers' needs. (2012 Report – Volume 1;

Public Accounts Committee agreement December 9, 2013)

Status – Implemented

In 2017, SLGA developed and started using a *Liquor Category Strategy* (Strategy) and drafted related procedures that help it identify and select products that meet customer needs.

The Strategy documents provincial and national sales data it uses to analyze product performance and trends. For example, SLGA compares provincial data to national data it receives from The Association of Canadian Distillers⁸ in its monthly trend analysis and semi-annual product assessments.

⁷ www.lcbo.com/content/lcbo/en/corporate-pages/about/media-centre/news/2017-05-02.html (10 October 2017).

⁸ The Association of Canadian Distillers receives liquor sales data from all the Canadian jurisdictions and provides national data reports for its members.



SLGA's trend analysis compares product sales and volume changes (i.e., growth and decline) to prior periods and national data. It also considers revenue generated by category and sub-category, and average sales. SLGA uses the results of its analysis to determine what products to purchase (or to stop purchasing) to meet its customers' needs.

SLGA also drafted procedures to support the implementation of the Strategy. Procedures include reviewing industry information (e.g., supplier information and international magazine subscriptions)⁹ and analyzing emerging trends and opportunities for new and current liquor products.

3.3 Product Performance Monitored

We recommended that Saskatchewan Liquor and Gaming Authority develop and use written procedures for monitoring product performance regarding sales targets, quotas, and product quality. (2012 Report – Volume 1;

Public Accounts Committee agreement December 9, 2013)

Status – Implemented

SLGA assesses product performance for each liquor category (e.g., dessert wines) twice a year using guidance included in its Strategy.

SLGA's Strategy documents criteria to assess product performance and to determine when to consider delisting a product (i.e., remove from list of products offered by SLGA). The product assessment criteria require management to consider whether the product is:

- Performing below expectations (total sales and average sales in comparison to prior period sales and sales of other similar products)
- Experiencing a significant decline in sales
- Experiencing a prolonged period of declining sales

When a product meets all three of these criteria, SLGA completes further analysis to determine if the product should be considered for delisting. SLGA also considers price point (e.g., price range), type of listing, and market trends (discussed in **Section 3.2**) in its assessments of liquor products.

SLGA's Listing Policy considers product quality and steps to take in the event SLGA identifies a quality issue. Its draft *Beverage Alcohol Quality Assurance Policy* also documents actions staff are to take upon receipt of unacceptable analysis reports.

We found that SLGA completed the first category analysis in January 2017. For all analyzed categories that we tested, SLGA followed its Strategy. Documenting its rationale for not delisting a product that met SLGA's criteria to consider for delisting could further improve SLGA's processes.

⁹ SLGA subscribes to International Scotch and Whisky Retailers (IWSR) Magazine, Shaken Daily News and Beverage Daily to identify industry trends.