

Chapter 16

Saskatchewan Liquor and Gaming Authority

1.0 MAIN POINTS

During 2017-18, the Saskatchewan Liquor and Gaming Authority had effective rules and procedures to safeguard public resources other than management needs to review, in detail, quarterly and year-end financial information.

The Authority did not adequately review detailed support for financial transactions. As a result, the draft financial statements and supporting information presented for audit contained numerous inaccuracies. For example, the draft financial statements did not always match supporting documentation, and incorrectly accounted for certain transactions.

The Authority implemented, in 2017-18, two of our prior recommendations. It prepared and approved monthly bank reconciliations timely and accurately. The Authority also completed its procedures for responding to IT security incidents.

The 2017-18 financial statements of the Authority and its wholly owned subsidiary, SLGA Retail Inc., are reliable. Also, the Authority and SLGA Retail Inc. complied with the authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

2.0 INTRODUCTION

The Saskatchewan Liquor and Gaming Authority operates under *The Alcohol and Gaming Regulation Act, 1997*. The Authority is responsible for distributing and regulating liquor and gaming products, and the regulation of liquor, gaming, and cannabis.¹

The Authority distributes liquor to retail store permittees who sell liquor to the public. It also operates government-owned retail liquor stores through its wholly-owned subsidiary SLGA Retail Inc.²

In addition, the Authority owns and operates all video lottery terminals (VLTs) located in the province and owns and manages all slot machines located at Saskatchewan Indian Gaming Authority Inc. (SIGA) casinos.

3.0 FINANCIAL OVERVIEW

As shown in **Figure 1**, in 2017-18, the Authority had consolidated revenues of just over \$1.0 billion, expenses of \$0.6 billion, and comprehensive income of almost \$0.5 billion. At March 31, 2018, the Authority held consolidated assets and liabilities each of about

¹ Saskatchewan Liquor and Gaming Authority, *Saskatchewan Liquor and Gaming Authority – Plan for 2017-18*, (2018).

² SLGA Retail Inc. was established under Order in Council 423/2016. It was incorporated under *The Business Corporations Act* as a wholly-owned subsidiary of the Authority on September 28, 2016, and began operations on October 9, 2016.



\$0.3 billion. The Authority's 2017-18 Annual Report includes its consolidated financial statements.

Figure 1 – Key Financial Results for 2017-18 by Segment

	Liquor	VLTs	Slot Machines in SIGA Casinos	Other Gaming ^A	Total
	(in millions)				
Total Revenues ^B	\$ 640.9	\$ 224.4	\$ 223.2	\$ 0.5	\$ 1,089.0
Total Expenses	387.1	54.8	136.9	15.4	594.2
Total Comprehensive Income (Loss)	\$ 253.8	\$ 169.6	\$ 86.3	\$ (14.9)	\$ 494.8

Source: Saskatchewan Liquor and Gaming Authority's 2017-18 audited consolidated financial statements.

^A Other gaming segment reflects the licensing and support of charitable and religious organizations that conduct and manage bingos, casinos, and raffles and the regulation and support of the horse racing industry.

^B Including other comprehensive income/loss.

4.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2018:

- **The Authority had effective rules and procedures to safeguard public resources except for the matter described in this chapter**
- **The Authority complied with the following authorities governing its and SLGA Retail Inc.'s activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Alcohol and Gaming Regulation Act, 1997
The Alcohol Control Regulations, 2016
The Executive Government Administration Act
The Environmental Management and Protection Act, 2010 (section 40)
The Environmental Management and Protection (General) Regulations (section 12)
The Financial Administration Act, 1993
The Gaming Regulations, 2007
The Liquor and Gaming Authority Employee Code of Conduct Regulations
The Liquor Consumption Tax Act³

The Customs Tariff Act (Canada)
Excise Act (Canada) (schedule I, II and II.1)
Excise Tax Act (Canada) (section 188)
Excise Tax Act, 2001 (Canada) (schedule 4-6)
Criminal Code of Canada (section 207)
 Orders in Council issued pursuant to the above legislation
 2002 Framework Agreement, as amended
 2002 Casino Operating Agreement, as amended
 Western Canada Lottery Corporation Operating Agreement
 Indigenous Gaming Regulators Licensing Agreement

- **The Authority and SLGA Retail Inc. each had reliable financial statements**

We used standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (including CSAE 3001) to conduct our audit. We used the control framework published by CPA Canada to make our judgments about the effectiveness of the Authority'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.

³ Effective October 9, 2016, SLGA Retail Inc. is responsible to impose and collect Liquor Consumption Tax (LCT); SLGA remits LCT on behalf of SLGA Retail Inc.

The audit included examining the Authority's financial-related controls used to administer revenues and expenses, safeguard assets, keep reliable financial records consistent with related authorities, prepare reliable financial reports/statements, monitor SIGA's operations, and oversee and account for the VLT progressive jackpot program introduced in 2017-18. This included evaluating its significant IT systems and processes including controls over new online services and system upgrades. The audit also assessed the work of the Authority's Gaming Integrity Branch and Audit Services Branch related to compliance with legislation over liquor and gaming activities in the province.

In addition, the audit included assessing the impact of changes to the liquor retailing system on the Authority's controls over inventory; property, plant, and equipment; and severance expense. It included assessing the appropriateness of accounting for significant related party transactions with SLGA Retail Inc., the accuracy of year-end consolidation adjustments and elimination of inter-entity transactions, and the impact of accounting standards that came into effect April 1, 2018 (e.g., IFRS 15). Furthermore, it included assessing the reasonableness and accounting for changing its accounting estimate for VLTs and slots from a five-year useful life to a six-year useful life.

5.0 KEY FINDINGS AND RECOMMENDATIONS

5.1 Detailed Review of Financial Transactions Needed

During the 2017-18 audit, the Authority did not adequately review detailed support for financial transactions leading to errors in the financial statements presented for audit.

Reviewing financial transactions includes agreeing amounts to detailed support as well as considering appropriateness of accounts and business units impacted by the transactions. Review also includes assessing overall reasonableness of financial transactions and records. A more in-depth review is necessary for new transactions or areas where changes occur. In 2017-18, the Authority was changing its liquor retailing structure, and accounting for a recently incorporated subsidiary in addition to routine changes in staffing and in responsibilities of staff.

During the audit, we identified the following concerns with the accuracy of the draft financial statements and supporting information presented for audit:

With respect to the Authority's draft financial statements:

- Warehouse inventory recorded in the Authority's financial records and draft financial statements was \$10.7 million less than the amount recorded in its perpetual inventory system.⁴ We note that the Authority later identified this discrepancy and brought it to our attention during the audit to discuss appropriate accounting treatment.
- Some transactions were accounted for incorrectly; for example, \$1.0 million was recorded as cost of sales (expense) instead of as a reduction of trade and other payables; \$2.9 million was recorded as salaries, wages, and benefits expense instead of as a reduction of trade and other payables; as a result, trade and other payables were overstated by almost \$5.0 million.

⁴ Comprised of a \$3.03 million overstatement of inventory and \$13.7 million understatement of inventory.



- Amounts recorded in the draft financial statements did not always match supporting documentation; for example, the Authority had recorded a \$7.5 million payable for environmental surcharge and container deposits held on liquor sales whereas supporting documents showed no amounts were owed.
- The Authority's trial balance accompanying the draft financial statements was out of balance by \$0.3 million. In addition, some amounts in the trial balance did not agree with amounts in the draft financial statements; for example, trade and other payables differed by \$5.1 million and inventory differed by \$1.2 million.

With respect to SLGA Retail Inc.'s draft financial statements:

- Accounting entries, albeit approved, overstated the \$506.4 million payable to the Authority by \$149.7 million.

Management appropriately corrected each set of financial statements for key identified errors prior to finalizing them.

With respect to schedules prepared to assist the Ministry of Finance in its preparation of the Summary Financial Statements:

- The Authority did not have support for its projection of contractual rights to SIGA slot revenue of \$790 million overstating contractual rights by an estimated \$395 million.⁵ The Authority had not documented its process to project this amount, prepared a formal forecast, or obtained forecasts from SIGA to support its projection.

Not reviewing financial information with adequate detail or sufficient attention increases the risk of errors occurring and going undetected. In addition, not detecting and correcting errors in interim and year-end financial reports within a reasonable time may result in management making decisions based on inaccurate financial information.

1. **We recommend that Saskatchewan Liquor and Gaming Authority management carry out detailed reviews of quarterly and year-end financial information to supporting documents (e.g., reconciliations, journal entries, financial reports).**

5.2 Preparation and Review of Bank Accounts Reconciliations More Timely

We recommended that Saskatchewan Liquor and Gaming Authority prepare and approve timely and accurate bank reconciliations, as its policies require. (2017 Report – Volume 2; Public Accounts Committee agreement June 13, 2018)

Status – Implemented

During 2017-18, the Authority reconciled its bank accounts timely and accurately as its policies require. At March 31, 2018, the Authority had cash totalling about \$1.3 million in five bank accounts and petty cash.

⁵ For years six to ten.

The Authority's policy requires staff to reconcile the bank balance in its financial records to the bank's records within four weeks of month-end.⁶ It requires management to review bank reconciliations within two weeks of completion.

During 2017-18, the Authority started tracking actual dates that bank reconciliations are completed and approved. Tracking enables staff to better monitor whether reconciliations are prepared and approved within the expected timeframe.

For the 18 bank reconciliations we tested, all were prepared, and all but one were reviewed within the expected timeframes.

Proper bank account reconciliations check the accuracy and reliability of the Authority's accounting records (e.g., detect unauthorized payments or unrecorded cash receipts) and can identify bank errors, if any. Doing timely reconciliations and timely reviews of reconciliations enables timely follow up of differences and corrections increasing the accuracy of financial and banking records. Accurate and timely bank reconciliations reduce the risk of having inaccurate financial information to make decisions.

5.3 Policies and Procedures for Responding to IT Security Incidents Complete

We recommended that Saskatchewan Liquor and Gaming Authority develop information technology security policies and procedures for monitoring information technology security. (2013 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

Status – Implemented

During 2017-18 the Authority approved a policy for assessing security incidents and a plan for responding to them. It has contracted a service provider to monitor its network for security incidents during the year.

The Authority's IT Security Incident Response Policy requires it to identify the type of incident and severity, design an incident response plan, and communicate the incident with other staff of the Authority. The policy includes guidance for determining severity and for communicating security incidents.

The Authority's Security Incident Response Plan sets out criteria to assess incidents including a ranking scale to evaluate severity. Based on this assessment, it determines which stakeholders need to be involved and the level of support needed. During 2017-18 the Authority developed an incident response plan specific to malicious software and completed a testing exercise.

Clear IT security processes for responding to security incidents reduces the risk of inappropriate responses and not using staff time and resources efficiently. Properly responding to IT security issues reduces the risk of unauthorized access to IT systems and data without detection.

⁶ The liquor account is to be reconciled within five weeks of month-end.

