Chapter 4
Energy and Resources—Auditing Producer Returns for Non-Renewable Resources

1.0 Main Points

The Ministry of Energy and Resources levies and collects revenue, on behalf of the Government, from the production and sale of Saskatchewan's non-renewable resources such as potash, uranium, coal and enhanced oil recovery.

The Ministry uses its audits of producer royalties and taxes as the primary way to validate the accuracy and completeness of taxes remitted. To be effective, its audits must be timely and risk-based. In 2017-18, the Ministry's audits resulted in reassessments of additional production taxes and royalties totalling about $54 million.

For the 12-month period ended December 2018, the Ministry had effective processes to assess the completeness and accuracy of producer royalty and tax returns for potash, uranium, coal, and enhanced oil recovery, other than the following. The Ministry needs to:

- Eliminate its audit backlog by completing audits consistent with its risk-based audit plan

  At December 2018, the Ministry was several years behind schedule in completing audits. Not completing audits in a timely manner increases the risk the Ministry may have difficulty collecting reassessment amounts if a producer were to sell or cease operations before an audit was complete. In addition, if a reassessment determines the producer overpaid, then the Ministry is subject to paying interest on overpayments to the producer.

- Consistently document significant audit decisions, audit procedures, and quality review processes

  The Ministry's audit manual was out of date. An up-to-date manual would give clear guidance as to expected content of audit files. Consistently documenting key audit decisions and procedures in audit files would enable reviewers to better assess whether audits are designed and executed properly. Setting clear expectations about a timely review process would allow for timely feedback from reviewers before finalizing audits.

- Better estimate staff time and costs needed to complete its audits

  Budgeting expected staff time and costs would allow the Ministry to determine audit resources necessary to complete its required audits. Tracking actual time spent, and periodically comparing budget-to-actual costs would enable the Ministry to assess whether audits are done efficiently.

2.0 Introduction

We audited the Ministry of Energy and Resources processes to assess the completeness and accuracy of producer royalty and tax returns for potash, uranium, coal, and enhanced oil recovery. For the purposes of our audit, producers are any company filing a potash, uranium, coal, or enhanced oil recovery production royalty or profit tax return.

2.1 Non-Renewable Resources Taxes and Royalties

In Saskatchewan, non-renewable resources primarily consist of oil, natural gas, potash, uranium, and coal. Different provincial acts and regulations govern the royalty and tax structures for each of these resources.[1]

Laws require each individual mine/project of a producer to submit relevant production taxes and royalties to the Ministry each quarter. Initially, producers submit them based on estimates of their production activity. Then, at the end of the calendar year (e.g., for December 31 calendar year-end submitted by March 31), they must submit them based on actual results. Producers must submit returns that show the basis of their determination of production taxes and royalties. **Figure 1** sets out the number of producers by resource type submitting returns at October 2018.

In 2017-18 and 2018-19, as shown in **Figure 1**, the Ministry levied about $1.1 billion of non-renewable resource production taxes and royalties.[2] This is approximately 8% of total Government of Saskatchewan revenue in each year.

Figure 1—Number of Producers Submitting Royalty and Tax Returns at October 2018, and Ministry Non-Renewable Resources Revenue for 2018–19 and 2017–18

	# of Producers Submitting Royalty or Tax Returns [A]	2018-19 Budget[B]	2017-18 Actual[C]
		(in thousands of dollars)	
Oil[D]	22 enhanced oil recovery producers operating 68 projects	$ 692,900	$ 650,460
Crown Land Sales	Not applicable	63,900	64,684
Natural Gas	Not applicable	7,200	6,083
Potash	3 producers operating 10 mines	308,000	308,675
Uranium	4 producers operating 1 mine	60,946	76,736
Other Minerals (e.g., Coal, Sodium, Chloride, etc.)	2 coal producers operating 3 mines	31,854	34,018
Total Ministry Non-Renewable Resources Revenue		**1,164,800**	**1,140,656**

[1] The Ministry of Energy and Resources is responsible for administering *The Crown Minerals Act* and *The Mineral Taxation Act, 1983*. *The Mineral Tax Act, 1983* and *The Crown Minerals Act* each give cabinet the authority to make regulations related to production tax on non-renewable resources (e.g., *The Potash Production Tax Regulations*), and levying royalties (e.g., *The Crown Mineral Royalty Regulations*, *The Subsurface Mineral Royalty Regulations*). Production taxes on non-renewable resources are based on the volume of non-renewable resources produced. Royalties are payments in return for permission to use government lands. Royalties for non-renewable resources are based on the value of the non-renewable resources produced on leased crown lands.
[2] Ministry of the Economy *Annual Report 17-18*, p. 21.

	# of Producers Submitting Royalty or Tax Returns [A]	2018-19 Budget[B] (in thousands of dollars)	2017-18 Actual[C]
Total Government of Saskatchewan Revenue[E]		**14,243,500**	**14,019,268**
% of Government of Saskatchewan Revenue		**8.2%**	**8.1%**

[A] Source: Saskatchewan Operating Mines List (October 2018).
[B] Source: Ministry of Energy and Resources records.
[C] Source: *Ministry of the Economy Annual Report 2017-18*, p. 21.
[D] There are approximately 170 active oil producers, including 22 enhanced oil recovery producers that make up a portion of total oil revenue.
[E] Source: *2018-19 Saskatchewan Provincial Budget*, Government of Saskatchewan, p. 70 & Public Accounts 2017-18 *Volume 1 Summary Financial Statements*, Government of Saskatchewan, p. 72.

The Ministry is responsible for determining whether producers comply with applicable royalty and tax legislation, and remit royalties and taxes in accordance with relevant legislation. It has made an Audit Unit within the Revenue and Business Systems Branch responsible for determining this. The Audit Unit employs 11 full-time equivalent staff, and had a budget of $884,000 for 2018-19.

In 2017-18, the Audit Unit's audits resulted in reassessments of about $54 million of additional production taxes and royalties including $5 million in interest, and $3 million of refunds to producers. For April to December 2018, reassessments resulted in about $26 million including almost $2 million in interest and $4.5 million of refunds to producers.

2.2 Importance of Auditing Producer Returns

The following factors increase the risk of producers submitting incorrect production taxes and royalties.

Legislation over production taxes and royalties for non-renewable resources is complex. It requires producers to make detailed calculations based on numerous factors.

The Ministry is several years behind in its audits of producer returns.[3] Periodic changes to the law means both producers and Ministry audit staff must understand both existing and prior laws applicable to years not yet audited by the Ministry.

Changes in producer operations and structures can affect the production taxes and royalties due for a given year. Recently, producers have changed their operations, (e.g., suspend or close mines, reduce production, sell operations, or reduce staff) because of the weak economic value of some non-renewable resources (e.g., oil, uranium). Some producers have changed personnel who determine and submit production taxes and royalties. Furthermore, changes may make information to support past returns not be readily available to Ministry audit staff.

Being behind in audits also increases the risk of the Ministry not collecting reassessment dollars if producers sell or cease operations before it assesses the validity of all remitted taxes and royalties. Furthermore, where an audit identifies that a producer has paid too

[3] The law requires the Ministry to obtain a signed waiver from a producer to audit four years or more after the return date. For example, in 2018, the Ministry must obtain waivers for any audits for return periods of 2014, or before, prior to auditing them. Without a signed waiver, the Ministry is unable to perform an audit. To December 2018, the Ministry has not encountered problems in obtaining waivers from producers.

much production taxes or royalties in the past, the Ministry must pay it interest. The longer the time between when the producer paid and when the Ministry completes the audit increases the amount of interest the Ministry owes. In 2017-18, the Ministry paid about $200,000 in interest to producers (April to December 2018: about $300,000 in interest).

Ministry audits are the primary way to validate the accuracy and completeness of the producer returns, and in turn, non-renewable resource royalties and taxes. To be effective, the audits must be timely and risk-based.

3.0 Audit Conclusion

We concluded that for the 12-month period ended December 31, 2018, the Ministry of Energy and Resources had, other than the following areas, effective processes to assess the completeness and accuracy of producer royalty and tax returns for potash, uranium, coal, and enhanced oil recovery.

The Ministry needs to:

- **Complete a comprehensive update of its audit manual, and consistently document key audit decisions, audit procedures, and audit results in audit files**
- **Estimate and monitor the total amount of audit staff time and costs required to complete timely audits of producer returns, and establish the expected timing of quality reviews of audits completed**

Figure 2—Audit Objective, Criteria, and Approach

Audit Objective: To assess whether the Ministry of Energy and Resources had effective processes, for the 12-month period ending December 31, 2018, to assess the completeness and accuracy of producer royalty and tax returns for potash, uranium, coal, and enhanced oil recovery.

Completeness means that producers have submitted all required royalty and tax returns to the Ministry for review. Accuracy means that producers have correctly calculated amounts owing or refundable on returns they submit to the Ministry.

Audit Criteria:

Processes to:

1. Design a risk-based audit plan
   - 1.1 Maintain complete and accurate information on producers (e.g., submission of returns, status of past audits, relevant legislation)
   - 1.2 Utilize a risk-based approach to prioritize audits
   - 1.3 Document a risk-based audit plan
   - 1.4 Set clear guidance for staff (e.g., interpretation of legislation, audit programs)
   - 1.5 Provide producers with clear expectations and guidance on completing returns
   - 1.6 Identify required resources (e.g., timeframes, personnel, IT support, travel costs) to complete audit plan
2. Carry out a risk-based audit plan
   - 2.1 Use qualified staff (e.g., objective, appropriate competencies, properly trained on relevant legislation and on auditing)
   - 2.2 Complete audits as close as possible to producer reporting periods
   - 2.3 Monitor quality of audit work (e.g., conduct quality of reviews)
3. Monitor audit results
   - 3.1 Report results to producers promptly along with expected corrective actions to remedy identified non-compliance
   - 3.2 Track and monitor reassessments
   - 3.3 Implement consequences for non-compliance
   - 3.4 Share summarized key issues, trends, and results of audit quality reviews with senior management

Audit Approach:

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (CSAE 3001). To evaluate the Ministry's processes, we used the above criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. The Ministry's management agreed with the above criteria.

We examined the Ministry's policies, procedures, and records that relate to assessing non-renewable resource royalties and taxes. We interviewed relevant staff responsible for assessing producer returns. We tested samples of audit files, audit reports, and other records (such as training of employees, communication with producers, and risk assessments).

4.0 Key Findings and Recommendations

4.1 Guidance for Producers on Preparing Returns Sufficient

The Ministry consistently outlines expectations of, and provides producers with sufficient guidance on completing and submitting royalty and tax returns for non-renewable resources. In addition, auditors in the Audit Unit routinely give producers ongoing guidance on completing those returns.

The Ministry makes templates available to producers to assist in completing returns. It maintains templates for the different resources (e.g., potash, coal) and returns (e.g., profit, tax). We found the information on these templates aligned with legislation (e.g., *The Mineral Taxation Act*) and clearly set out return submission deadlines.

The Audit Unit uses a quarterly review of producer returns to monitor receipt of returns (and related submission of production taxes and royalties). This quarterly review checks whether returns contain the required information. In addition, at the end of each fiscal year for project returns of enhanced oil recovery, the Ministry compares estimated production volume and value to the year-end actual amounts. The Ministry calls these quarterly and year-end reviews desk audits.

For the ten desk audits we tested, auditors completed quarterly reviews as expected.

In addition, the Audit Unit leverages its desk audits to give guidance and clarification to producers. Actively sharing results of quarterly reviews aid producers in completing returns.

While we found that changes to legislation were infrequent, the Ministry did an effective job of communicating the impact of legislative changes on the reporting and audit process when they did occur. For example, it explained the impact of the 2017 changes to the potash royalty system.

4.2 Complete and Accurate Information on Producers Maintained

The Ministry maintains an up-to-date listing of producer information for each non-renewable resource and project (i.e., individual mines or enhanced oil recovery project).

Ministry audit staff update producer information for changes that affect the reporting of producer returns and its auditing process. Changes include producer personnel changes or relevant changes to production (e.g., mine suspends production).

To keep its information current:

- For oil, Ministry auditors leverage, on an annual basis, information contained in the Ministry's IT systems about producers and related enhanced oil recovery projects

- For all other types of non-renewable resources (e.g., potash, uranium, coal, etc.), the Ministry auditors, each quarter, use knowledge gained from their quarterly review of producer royalty and tax submissions

In addition, the Ministry tracks the historical results of completed audits of producer returns (e.g., audit assessments for each producer/location). The Audit Unit monitors audits of returns on an on-going basis to identify trends or repeated errors.

Up-to-date information about producers and their related projects provide a foundation for developing a risk-based audit plan.

4.3 Risk-Based Audit Plan Completed Annually

Each year, the Ministry completes an annual audit plan where assessed risks determine the frequency and priority of audits. This plan forms part of the annual plan of the Revenue and Business Systems Branch (i.e., branch that is responsible for the Audit Unit) Plan.

Each spring, the Revenue and Business Systems Branch submits its branch plan for the upcoming year to the Deputy Minister.

The annual branch plan includes the annual risk-based audit plan. This is comprised of a summary of planned audit work for the upcoming year (e.g., the number of audits by non-renewable resource), a detailed listing of the status of outstanding audits (e.g., by return year, by non-renewable resource), and a risk assessment for each type of non-renewable resource. The Branch categorizes audit risks of the accuracy and completeness of producer returns as high, medium, or low.

The Branch uses the risk assessment to determine the frequency and priority of audits.[4,5] It aims to audit returns assessed as high-risk each year, and medium-risk projects as resources permit. It does not audit returns assessed as low risk.

[4] Frequency refers to how often the Ministry will complete an audit on a specific project (i.e., higher risk projects will have an audit completed each year).
[5] Priority refers to how the Ministry chooses which audits to complete first. The Ministry will typically complete older audit periods of high-risk first and move toward moderate risk projects that have recent reporting periods.

To prepare the annual audit plan, each year, the Audit Unit assesses producer information and project risk level of each enhanced oil recovery project.[6] It bases its assessment on different factors (e.g., potential for operator to require payment to the Ministry, prior year audit adjustments, size of project).

The Branch views all potash, uranium and coal returns as high risk.[7] These returns include a high volume and various types of transactions; and individual returns support large dollar values of production taxes and/or royalties.

In addition, we found senior Branch management appropriately approved the 2018-19 audit plan before submitting the Branch Plan to the Deputy Minister. We confirmed the Branch gave each auditor the 2018-19 Branch Plan.

Having a risk-based audit plan helps the Ministry use audit resources more effectively by focusing audit effort on returns with a greater risk of the producer not having submitted the right amount of production taxes and/or royalties.

4.4 Clear Long-Term Plan to Eliminate Backlog of Audits Needed

The Ministry does not have a clear long-term plan as to when it expects to audit producer returns. At December 2018, the Ministry was behind on the completion of audits of producer returns—up to five years behind on potash audits, and up to four years behind on uranium audits. At December 2018, it had not completed audits of 85 producer returns related to years on or before 2016.

In 2017, the Audit Unit developed an audit backlog reduction plan (last updated in September 2017) with an objective of conducting all audits within two years of the filing date (i.e., it would audit 2016 returns filed in March 2017 by March 2019). This plan included a strategy to eliminate its backlog of audits over five years (that is, conduct 20% more audits than new audits added to its annual workload).

Our analysis of the 2017-18 and 2018-19 audit plans and completed audits found that the Ministry was making limited progress in addressing its backlog. We found the following:

- For the two-year period April 1, 2017 to March 31, 2019, the Audit Unit expects to have reduced its backlog of audits by six instead of 18 as anticipated under the backlog reduction plan.[8]

- The Audit Unit did not plan to reduce its backlog of audits in 2017-18. For the four significant revenue streams (i.e., potash, uranium, coal, and enhanced oil recovery), it planned to complete 48 audits; whereas the reduction plan anticipated completing at least 66 audits (i.e., 20% more than the 55 new audits added for 2017-18). The Unit completed 22 audits for those four streams—44 audits less than the backlog reduction target.

[6] Companies can have more than one enhanced oil recovery project.
[7] The Ministry has assessed potash crown royalty returns as low risk beginning with 2018 returns because of the 2017 changes in the potash royalty system.
[8] 18 is comprised of 11 for 2017-18 (20% of 55 new audits) and 7 for 2018-19 (20% of 36 new audits).

- The Audit Unit planned to reduce its backlog of audits in 2018-19 faster than the backlog reduction plan expected. For the four significant revenue streams, it planned to complete 56 audits; whereas the reduction plan anticipated completing at least 43 audits (i.e., 20% more than the 36 new audits added for 2018-19).[9] As of December 2018, the Unit expects to complete 55 audits for those four streams in 2018-19—12 audits more than the backlog target.

Not completing audits in a timely manner increases the risk of more costly and time-consuming audits. This is because of the potential for added complexity and time resulting from changes in producer operations, structures and personnel, and changes to legislation. In addition, it increases the risk of increased interest costs to the Ministry where audits result in a refund to a producer (e.g., a return that has a refund assessment after four years would accumulate additional interest expense to the Ministry).[10] See **Recommendation 1** about estimating staff time and costs required to audit returns.

Management advises us that it was behind in the completion of audits because some types of audits took longer than it had anticipated, and the Ministry did not have sufficient audit staff. As reflected in its 2018-19 Branch Plan, the Ministry hired three additional full-time auditors—two in October 2018, and one in January 2019.

4.5 Better Estimation of Planned Audit Staff Time and Costs Needed

The Ministry does not formally determine staff time and costs necessary to complete audits of producer returns within two years of the producer filling the return.

Having this estimate would help it determine its overall resource needs to carry out timely audits of returns. It would also help it determine if differences exist between its overall resources needs and existing audit staff complement, and steps to take, if any.

The Branch bases the total number of audits it plans to complete in the upcoming year on its expected audit staff complement for that year, and a preliminary (undocumented) estimate as to how much time it expects audits of different types of returns to take.

We found that the Audit Unit also makes preliminary estimates of time to complete audits when assigning audits to individual auditors. It incorporates these estimates into the work plans of individual auditors. Auditors, typically, prepared their work plan at the start of each fiscal year.

For each of the nine individual-auditor work plans we tested, the work plan set out the preliminary expected time to complete specific audits assigned to the auditor.

In addition, the Audit Unit expects auditors, when planning audits of individual returns, to include estimated hours to complete the audit in the audit plan for that return. The Audit Unit does not compare these estimates to the Unit's preliminary estimates.

[9] For 2018-19, the Branch planned to commence and/or complete 15 high-risk and 10 medium-risk enhanced oil recovery project audits, 8 potash profit tax audits, 15 potash crown royalty audits, 5 uranium audits, and 3 coal audits.
[10] At December 2018, the Ministry has paid producers interest of approximately $300,000 related to overpayments in production taxes and royalties for audits completed during 2018-19.

Five of ten audits we tested had audit plans that identified overall planned hours for completion. None of these five plans included the basis for estimated hours (e.g., prior year actual hours, or actual audit hours of a similar return) or where auditor expected to spend significant time (e.g., completion of audit procedures, vetting findings with producer).

The Ministry does not compile, on an overall basis, its estimates of staff time (hours) to complete audits for the upcoming year to show that the number of audits it expects to complete is doable.

Having a consistent process to budget and estimate expected staff time and costs necessary to audit returns helps determine audit-staffing requirements to complete audits within expected timeframes. In addition, having budgets enables monitoring the timeliness and efficiency of its audits, and identifying areas for improvement.

1. **We recommend that the Ministry of Energy and Resources estimate staff time and costs required to audit producer returns for non-renewable resources production taxes and royalties.**

4.6 Auditor Work Plans Used to Communicate Priority Audits

The Audit Unit uses work plans of individual auditors to document its allocation of planned audits for the upcoming year, and expected timing of each audit.

By setting out the expected timing, the Ministry communicates to individual auditors which audits are the highest priority audits.

For each of the nine individual-auditor work plans we tested, the work plan allocated specific audits to an auditor. For each assigned audit, it set out expected completion. However, for one of the nine plans we tested, expected completion was before the end of the year instead of the planned month of completion.

Having a clear and documented process to allocate and prioritize audits helps ensure auditors complete higher priority audits first.

4.7 Audit Manual Requires Updating

The Ministry's Audit Manual is not up to date.

The Audit Manual (last updated in 2005) appropriately outlines key auditor responsibilities, and various expectations for auditing producer tax and royalty returns. It suitably recognizes differences exist between audits of returns of the various resources due to differences in legislated requirements, industry risks, reporting structures, etc. **Figure 3** provides some expectations currently outlined in the Ministry's Audit Manual.

Figure 3—Examples of Expectations in Ministry Audit Manual

- Expects auditors to prepare audit plans for each individual audit. It recognized that plans would differ depending on the non-renewable resource and type of return audited. It sets out expected content of those plans (e.g., planned audit completion date, prior year results, and expected audit procedures). It includes guidance on assessing audit risks, and developing audit plans.
- Includes guidance on drafting reports on the results of the audit (use of audit proposals), and issuing notice of assessments for additional production taxes or royalties assessed or refunds for overpayments.
- Sets out processes to monitor the quality of the audits (e.g., review of the audit file by a person other than the auditor).

Source: Ministry of Energy and Resources Audit Manual.

However, the Audit Manual does not reflect current practices of the Audit Unit, and the Ministry's expectations about auditing producer returns. We found:

- The audit risk guidance in the Manual differed from the risk-assessment methodology used to prepare the Unit's annual audit plan, and to determine the expected frequency and priority of audits.
- The Manual did not include expectations for completing audits of returns within a specified timeframe (e.g., within two years of filing date).
- The Manual did not include guidance on communicating timely audit results. For example, it does not include timeframes for providing results to producers after completion of fieldwork (e.g., 30 days).
- The Manual did not mention its practice of giving producers time to re-file returns. Since 2017, the Ministry gives producers a six-month window for producers to adjust subsequent returns after an audit has been completed.[11] For example, after 2014 audit results were provided, the producer would have six months to re-file the 2015, 2016, and 2017 returns to prevent the same error from occurring in those returns.

In addition, we found that the Audit Manual did not provide guidance on a number of key audit areas. For example, it did not provide guidance on:

- Assessing if the underlying data used to prepare returns is reliable
- Determining materiality for audits of returns other than enhanced oil recovery returns (e.g., potash, uranium)[12]
- Establishing what is a timely quality review of the audit file (e.g., prior to issuing additional notice of assessments or refunds to a producer)

Not having established expectations for timely completion of audit work, communication of audit results, or review of audit work increases the risk of delays or problems in completing audits (e.g., can increase interest expense, delay payment, impact accuracy of reporting, etc.). Not having a consistent documented policy for the risk assessment and prioritization of audits can result in inappropriate or inconsistent audit completion.

[11] This is communicated to producers through the Ministry's Common Questions About Audits document, which is available on the Government of Saskatchewan publications website.
[12] Materiality is a threshold above which auditors view missing or incorrect information to have an impact on users decision making.

Not reviewing the currency of the Audit Manual periodically increases the risk that procedures become outdated, and staff viewing it as irrelevant. This in turn increases the risk of staff not following it when auditing producer returns.

2. **We recommend that the Ministry of Energy and Resources maintain its audit manual used during audits of non-renewable resources production taxes and royalties.**

At December 2018, the Ministry has begun to revise certain sections of the manual (e.g., *Section 205—Guidance* on non-renewable resource audit procedures, *Section 208—Application of Audit Assessments*). It anticipated completing these revisions by the summer of 2019.

4.8 Useful Additional Guidance and Expectations for Auditors Provided

The Ministry maintains useful audit programs, standard audit program templates (forms), and other forms to help auditors audit producer returns.

We found standard audit programs (i.e., checklists) exist for each non-renewable resource (e.g., uranium). They clearly outlined expected audit procedures. They included general procedures (e.g., prepare and submit audit plan to audit manager) as well as detailed reconciliations and verification procedures (e.g., verifying production levels reported in returns to production reports).

In all ten audits we tested, auditors consistently used the key relevant audit programs when completing audits.

Maintaining clear audit guidance provides auditors with expectations for audit procedures and increases the likelihood that sufficient and appropriate audit work is completed.

4.9 Qualified Staff Used and Appropriate Training Provided

The Ministry uses appropriately qualified auditors to audit production and royalty producer returns. It assigns audits to auditors with an appropriate level of experience.

The Ministry hires professional accountants or individuals interested in becoming a professional accountant as auditors.

At December 2018, the Audit Unit had 11 auditors—6 auditors with a professional accountancy designation (i.e., Chartered Professional Accountant), and 5 auditors working towards achieving one. Four auditors had over five years of experience auditing producer returns.

In addition, the Ministry provides training to new audit staff (i.e., initial orientation when starting employment and on-the-job training through supervision of senior auditors).

It provides auditors with ongoing training to enable them to maintain or pursue their professional accountancy designations. This includes access to workshops, legislation change updates, specific industry training (e.g., oil, gas, and other minerals), and areas relevant to auditing (e.g., analytical sampling tools).

For all ten files we tested, the assigned auditor's knowledge and level of expertise aligned with the complexity of the return. For example, we found more complex audits we tested had at least one senior auditor assigned. Auditors with less than five years of experience were assigned to lower complexity audits or assisted a senior auditor on a more complex return.

Having qualified staff and training programs available increases the quality and consistency of audit work.

4.10 Audit Expectations Communicated Consistently and Clearly to Producers

Ministry auditors consistently communicated expectations to producers prior to starting the audit of a return.

For all ten audits of producer returns we tested, the Ministry auditors sent an audit commencement letter to the producer before they started the audit. The letter set out key information about the planned audit such as the return year being audited, planned timing of the audit, documentation expectations, and information requirements of the producer.

Communicating expectations with producers establishes the requirements of the audit and can reduce misunderstandings later in the audit process.

4.11 Consistent Documentation in Files Needed

Contrary to Ministry expectations, auditors did not consistently document key audit information, nor complete certain audit work in audit files.

For the ten audits we tested, we identified the following inconsistencies in documentation in the related audit file:

- Seven audit files did not include the expected cost of audit resources (i.e., total dollar of resources required). Of these files, only two identified expected travel costs
- Two of ten audit files tested did not include an expected completion date in the audit plan as the Audit Manual expects
- One of six audit files that required a materiality calculation did not have support for the determination of materiality
- Five of ten audits did not document consideration of prior year audit results when planning the current audit
- Two of six audits using samples did not include support for the sample size used. For all six files tested, the file did not refer to where the specific sample was tested

Documenting key audit decisions and results of audit work shows the audit is appropriately designed and executed. Inconsistent and incomplete documentation in audit files can result in not having sufficient and appropriate support for audit results, and for the basis of additional assessments or refunds. In addition, inconsistent or incomplete documentation may result in expending additional resources in the event of a disagreement with a producer on audit findings.

3. **We recommend that the Ministry of Energy and Resources consistently document key audit decisions, audit procedures, and results of audit work in files of audits of producer returns for non-renewable resources production taxes and royalties.**

4.12 Review of Audit Files Can Be Improved

Quality Reviews Not Confirming Consistency of Audit Documentation

Although the Ministry has an appropriate process to review the quality of its audits of producer returns, reviews did not always make sure audit files for audits of producer returns consistently documented plans, and audit work, as its Audit Manual expects.

Consistent with good practice, the Ministry reviews the quality of each audit file. The primary purpose of the review is to reduce the risk that an auditor may have missed or incorrectly assessed an error. A person (other than the auditor who did the audit) does the review. In addition, the manager of the Audit Unit reviews the results of the quality review to verify that required information is in an audit file.

For nine of the ten audit files of producer returns we tested, the Ministry had finalized the audit. For each of those nine completed audit files, a second person had reviewed the audit file to confirm the audit was carried out as expected. As well, the reviewer completed a checklist to document the nature and extent of the review.

As previously noted in **Section 4.11**, we found inconsistent documentation in audit files. A more comprehensive review process may help improve audit documentation.

See **Recommendation 3** about consistently documenting key decisions and results of audit work in audit files.

Timely Quality Reviews Needed

In addition, the Ministry was not always completing quality reviews of audit files before issuing final notice of assessments (invoices for additional assessments) to producers or paying refunds.

For three of eight audit files with signed and dated reviewer checklists, the review was finished after the Ministry issued a final notice or paid a refund to the producer (i.e., the reviews took place between 3 to 238 days after issuing the final notice or paying the refund). The review did not result in changes to the final assessment for any of the eight files we tested.

Not having a timely review process increases the risk of Ministry staff identifying errors after a producer has already made payment or received a refund. For example, if the Ministry submitted a final notice to a producer, received payment, and subsequently identified an error in the review process, Ministry staff may have difficulty receiving payment for additional adjustments.

4. **We recommend that the Ministry of Energy and Resources complete quality reviews of audit files of producer returns for non-renewable resources production taxes and royalties before finalizing audit results.**

4.13 Audit Results Communicated to Producers

Auditors consistently communicated the results of the audit to producers; however, the timeframe of the communications varied significantly.

For ten audits we tested, Ministry auditors consistently communicated audit results to producers in the format that the Ministry expected (e.g., use of an audit proposal, and final assessment notice). For all ten audits, it advised producers about the results of the completed audit.

For these ten audits, the auditor provided the producer with the audit results between 2 and 51 days after completion of fieldwork.

As noted in **Section 4.7**, the Ministry has not provided its auditors with guidance on acceptable timeframes to communicate audit results to producers after the completion of fieldwork.

Without timely communication of audit results, producers may continue to make similar errors, which can lead to increased costs (i.e., penalties and interest) or time spent by the auditor on subsequent returns. See **Recommendation 2** about updating the Audit Manual to reflect good audit practice.

For all ten files we tested, Ministry audits gave Revenue Billing (i.e., the Revenue Unit within the Branch) appropriate and accurate information on re-assessed amounts resulting from the audit. This information enabled the Ministry to issue an invoice for reassessment notice or refund payment.

4.14 Penalties and Interest Levied Consistently

The Ministry has consistently implemented consequences for producers submitting incorrect production taxes and/or royalties based on inaccurate returns. For producers who did not pay enough, it levied penalties and assessed interest consistent with the law. For producers who overpaid, it calculated and paid interest to them consistent with the law.

June 2017 changes to the law allows the Ministry to apply a 10% penalty on any errors identified during an audit of producer returns (e.g., *The Potash Production Tax Regulations, The Subsurface Mineral Royalty Regulations*). For example since then, the

Ministry can levy a $100,000 penalty on $1 million additional assessment. In addition, laws allow the Ministry to charge interest on amounts owed.

For each of the four audits we tested where the audit identified the producer owed additional production taxes or royalties, the Ministry consistently applied penalties and interest, and calculated them consistent with the law.

For all three audits we tested where the Ministry audit identified the producer had paid too much production taxes or royalties, the Ministry consistently determined interest it owed to the producer, and calculated it consistent with legislation.

To avoid penalizing producers for the same auditor-identified error multiple times, the Ministry gives producers six months to correct and re-submit any previously submitted and not yet Ministry-audited returns. For example, if a Ministry audit completed in July of 2018 and found an error in a 2015 return, the related producer would have until January of 2019 to correct and resubmit their 2016 and 2017 returns.

The Ministry has communicated this practice to producers through its Common Questions About Audits information circular available on its website. Ministry auditors also remind producers of this practice when discussing the results of audits.

4.15 Periodic Monitoring of Use of Audit Resources Needed

Senior management does not receive information to enable monitoring whether the audits of returns are completed as and when planned.

The Audit Unit gives senior Ministry management semi-annual reports on the status of audit work, and changes to assessments resulting from the audits. For example, the Audit Unit's 2018-19 semi-annual report to senior management set out the number of completed, ongoing, and upcoming audits for the current fiscal year. The report summarized assessments/refunds resulting from the audits by each non-renewable resource. For example, the 2018-19 Mid-year report indicated that the Ministry had completed 73 audits and reviews, resulting in $31 million of audit adjustments.

However, these reports do not provide insight as to if the Audit Unit is on target in completing the number of audits set out in the approved annual Branch plan, and if it is making progress in reducing its backlog of audits.

The reports do not compare the actual number of audits completed (or forecasted to complete) in the year to planned either on an overall basis or by key non-renewable resources (as set out in the annual Branch Plan). In addition, the reports do not indicate whether audits were completed within expected budgets or timeframes.

Routinely comparing actual resources used to date (and forecasted) to plan would help assess whether the Audit Unit is achieving its plans, and if not, allow for timely decisions on adjustments required.

5. We recommend that the Ministry of Energy and Resources routinely monitor actual-to-planned staff time and costs to audit producer returns for non-renewable resources production taxes and royalties.

In 2018-19, the Ministry has started to track the total number of actual hours taken to complete each audit. In addition, auditors began to track hours spent on different areas or stages of the audit (e.g., audit planning, fieldwork, reporting, resolving disputes). The Ministry expects to use information to improve the monitoring of time spent on individual audits. As of December 2018, it was not comparing actual time spent on individual audits (or overall) to planned.

4.16 Ministry Staff Monitor Status of Audit Assessments

Both Ministry auditors and revenue staff actively monitor outstanding assessments (i.e., notice of assessments) for final payment or refund.

The Ministry has established processes to monitor the status of audit assessments and auditors are maintaining the results of these assessments.

Auditors also monitor audit assessments through the review of quarterly producer return submissions. For example, an auditor assigned to a uranium file that had an audit completed would be monitoring the current year quarterly returns. While discussing the quarterly return submissions with the producer, they will also discuss the status of any outstanding audit assessments with the producer.

At December 2018, the Ministry is working towards developing a database of all returns and audit results. It expects to use the database to improve its monitoring of assessments. It expects to complete this work in mid-2019.

5.0 Selected References

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