

Chapter 4 Environment

1.0 MAIN POINTS

The Ministry of Environment and its agencies, all with March 31 year-ends, had effective rules and procedures to safeguard public resources except for the following matter related to the Ministry.

The Ministry needs to verify the accuracy of information in its lease database about surface leases that it administers for itself and the Ministry of Government Relations—Northern Municipal Trust Account. Inaccuracies in the expiry dates of signed agreements in the Ministry's lease database resulted in the Ministry giving the Ministry of Government Relations inaccurate information about the Trust Account's contractual rights at December 31, 2018.

Also, the Ministry and its agencies complied with financial-related authorities. Its agencies' March 31, 2019 financial statements were reliable.

2.0 INTRODUCTION

2.1 Background

The Ministry of Environment's role is to manage the health of Saskatchewan's environment in a respectful, responsible, and enforceable manner that balances growth with sustainable development through objective, transparent and informed decision-making and stewardship.¹

At March 31, 2019, the Ministry held responsibility for the following special purpose funds and agencies: Fish and Wildlife Development Fund, Impacted Sites Fund, Saskatchewan Technology Fund, and the Water Appeal Board.² Except for the Technology Fund, each of these agencies provided the Legislative Assembly with audited financial statements.

2.2 Financial Overview

In 2018–19, the Ministry of Environment generated revenues of \$103.1 million (2017–18: \$86.9 million), and expenses of \$184.4 million (2017–18: \$181.5 million).³ At March 31, 2019, the Ministry had tangible capital assets with a net book value of \$133.7 million and liabilities for contaminated sites of \$30.5 million.

¹ Ministry of Environment *Annual Report for 2018–19*, p. 3.

² In December 2018, *The Management and Reduction of Greenhouse Gases Act* was amended to establish the Saskatchewan Technology Fund. The Technology Fund did not operate, and had no financial transactions in 2018–19. The Technology Fund did not prepare financial statements for 2018–19.

³ Ministry of Environment *Annual Report for 2018–19*, p. 15–17.



Figure 1—Major Programs and Spending

	Estimates ^A 2018–19	Actuals 2018–19
	(in millions)	
Central Management and Services	\$ 17.5	\$ 17.1
Climate Change and Adaptation	3.3	2.7
Fish, Wildlife and Lands	13.1	13.8
Compliance and Field Services	19.4	20.5
Environmental Protection	37.1	39.5
Forest Services	7.8	7.8
Wildfire Management	61.3	80.1
Total Appropriation	\$ 159.5	\$ 181.5
Capital Assets Acquisitions	(10.1)	(9.7)
Capital Assets Amortization	12.9	11.3
Non-Spending Control Items	-	1.3
Total Expense	\$ 162.3	\$ 184.4

Source: Ministry of Environment *Annual Report for 2018–19*, p. 15.

^A Environment obtained additional funding through supplementary estimates of \$23.5 million.

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2019, we found, in all material respects:

- **The Ministry of Environment had effective rules and procedures to safeguard public resources, except for the matter reported below**
- **The Ministry of Environment and its agencies complied with the following authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Environmental Management and Protection Act, 2010

The Environmental Management and Protection (General) Regulations

The Mineral Industry Environmental Protection Regulations, 1996

The Executive Government Administration Act

The Ministry of Environment Regulations, 2007

The Financial Administration Act, 1993

The Fisheries Act (Saskatchewan), 1994

The Fisheries Regulations

The Forest Resources Management Act

The Forest Resources Management Regulations

The Natural Resources Act

The Provincial Lands Act, 2016

The Crown Resource Land Regulations, 2017

The Provincial Lands (Agriculture) Regulations

The Public Services Act, 1998

The Purchasing Act, 2004

The Water Appeal Board Act

The Wildfire Act

The Wildlife Act, 1998

The Wildlife Regulations, 1981

Orders in Council issued pursuant to the above legislation

- **The financial statements of the Fish and Wildlife Development Fund, the Impacted Sites Fund, and the Water Appeal Board were reliable**

We used standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (including CSAE 3001 and 3531) to conduct our audit. We used the control

framework included in COSO's *Internal Control—Integrated Framework* to make our judgments about the effectiveness of the Ministry of Environment's controls.

Our audit included examining the effectiveness of the Ministry's financial-related controls used to administer its spending, revenues, and various assets consistent with related authorities; keep reliable financial records; prepare reliable reports; and safeguard the crown lands that it administers. This year, we paid particular attention to following:

- The Ministry's processes to make reasonable estimates for its environmental liabilities related to contaminated sites
- The accuracy and existence of contractual rights reported in the Ministry's financial information

4.0 KEY FINDINGS AND RECOMMENDATION

4.1 Update to Surface Lease Information in Database Needed

The Ministry needs to review and update surface lease information in its lease database to verify that information in the database matches actual signed lease agreements, especially lease expiry dates.

The Ministry uses its lease database to administer its surface leases on Crown lands it manages. Surface leases include leases for infrastructure such as power lines. For the year ended March 31, 2019, the Ministry recorded about \$1 million in lease revenue.

The Ministry also administers surface leases on behalf of the Ministry of Government Relations—Northern Municipal Trust Account (Trust Account).⁴ These surface leases include leases in the north for developments such as mining operations. For the year ended December 31, 2018, the Trust Account recorded \$4.1 million in lease revenue.

The Ministry uses the information in its lease database to administer the leases, including annual billings, monitoring leases, and calculating total expected future revenues from the lease contracts called 'contractual rights'.⁵

We found 10 leases where the expiry date of the signed lease agreement disagreed with the expiry date information recorded in the Ministry's lease database.⁶ The database's expiry dates included leases expiring significantly further into the future than the actual expiry dates. For example, the lease database often indicated a lease expiring in 2094, approximately 50–60 years longer than the actual lease terms. All of these leases belonged to the Trust Account.

⁴ The Ministry of Government Relations is responsible for administering the Northern Municipal Trust Account. Pursuant to *The Northern Municipalities Act, 2010*, the Northern Municipal Trust Account is responsible for administering the municipal functions of the Northern Saskatchewan Administration District. The Northern Saskatchewan Administration District is a geographical area in the north defined by section 74 of *The Northern Municipalities Regulations*.

⁵ Per Canadian Public Sector Accounting Standards section 3380, contractual rights are rights to economic resources arising from contracts or agreements resulting in both an asset and revenue in the future. PSAS 3380 requires the Ministry of Environment and the Northern Municipal Trust Account to disclose contractual rights in each agencies' financial information for its respective leases.

⁶ In our sample, we found expiry dates in the lease database disagreed with the signed lease agreement for four of 23 leases tested. We identified that leases with expiry dates far into the future (e.g., 2094) may be incorrect. We assessed all leases with expiry dates far into the future, finding a total of 10 leases in total with incorrect expiry dates.



Because of this incorrect information in its database, the information the Ministry gave to the Trust Account about these leases overstated the Trust Account's contractual rights at December 31, 2018, by about \$67 million. The Ministry revised its calculations for the Trust Account's contractual rights after we identified the erroneous information. These errors also existed at March 31, 2018, which resulted in an overstatement of contractual rights in the 2017–18 Summary Financial Statements.

We found the Ministry accurately billed lease customers for the leases during 2018–19.

The Ministry indicated expiry dates in its database did not agree with the signed agreements because it often entered a placeholder expiry date or an estimated lease term into the database before the lease agreements became finalized. In these instances, the finalized lease term differed from the estimated or placeholder expiry date. The Ministry missed updating the expiry dates in its database after the lease agreements were finalized.

Incorrect or inaccurate lease information in the Ministry's lease database significantly increases the risk of it incorrectly administering surface leases and making errors in its financial reporting.

- 1. We recommend the Ministry of Environment verify the accuracy of lease information in its database used to administer leases.**