

Chapter 6 Finance

1.0 MAIN POINTS

The Ministry of Finance and certain of its agencies with March 31 year-ends had effective rules and procedures to safeguard public resources except for the matter related to the Ministry as noted in this chapter.

The Ministry administers resource surcharge revenues. In order to ensure it records these revenues in the proper period, it needs to implement its models that better estimate annual resource surcharge revenues.

We found the Ministry performed regular reviews of its user accounts for its key tax revenue IT system, as well as followed its processes to promptly remove unneeded user access to its IT systems and data. It also sufficiently documented its procedures for managing operations in the event it could not access certain key IT systems.

The Ministry and certain of its agencies with March 31 year-ends complied with financial-related authorities. For the agencies that prepare financial statements, their March 31, 2019 financial statements were reliable.

2.0 INTRODUCTION

2.1 Background

The Ministry of Finance is responsible for oversight of government revenue, expenses, assets, and liabilities. It is the lead ministry for fiscal policy; budget development and integrity; managing provincial debt; designing and administering fair, efficient, and competitive tax regimes; pension and benefit administration; labour relations advice to government; ensuring accountability to both the public and the Legislative Assembly for the use of public funds; and ensuring effective financial management and accounting policies and procedures.¹

2.2 Special Purpose Funds and Agencies

The Ministry administers, and is responsible for, the following special purpose funds and agencies. Each of the agencies (except for the General Revenue Fund) listed in **Figure 1** provides the Legislative Assembly with audited financial statements; some also provide an annual report.²

¹ www.pubsaskdev.blob.core.windows.net/pubsask-prod/112651/2018-19FinanceAnnualReport.pdf (31 July 2019).

² The General Revenue Fund does not prepare financial statements, and is not legally required to do so. The financial results of the General Revenue Fund are included in the Government's Summary Financial Statements.

**Figure 1—Agency Groups by Fiscal Year-End**

Agencies with March 31 Year-End	
General Revenue Fund (GRF) ^A	Public Employees Benefits Agency Revolving Fund
Judges of the Provincial Court Superannuation Plan	Public Service Superannuation Plan
Public Employees' Pension Plan	Water Security Agency Retirement Allowance Plan
Saskatchewan Pension Annuity Fund	
Agencies with December 31 Year-End ^B	
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	

^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 the Legislative Assembly appropriates all expenses.

^B Our 2019 Report – Volume 1 includes audit results for these agencies for the year ended December 31, 2018.

2.3 Financial Overview

In 2019, the Ministry managed gross public debt of \$21.6 billion (2018: \$19.1 billion) and investments in sinking funds of \$2.2 billion (2018: \$2 billion).^{3,4} Also, as shown in **Figure 2**, for the year ended March 31, 2019, the Ministry administered revenues of \$9.5 billion (2018: \$8.9 billion) including taxation revenues of \$6.3 billion, transfers from government entities (e.g., Saskatchewan Liquor and Gaming Authority) of \$0.8 billion, and transfers from the Federal Government of \$1.6 billion.

Figure 2—Revenue by Major Type

	Estimates 2018–19	Actual 2018–19
	(in millions)	
Taxation	\$ 6,447.1	\$ 6,343.9
Non-renewable resources—resource surcharge	317.3	393.8
Transfers from government entities	710.3	784.7
Other own-source revenue	302.2	284.8
Transfers from the Federal Government	<u>1,720.5</u>	<u>1,647.3</u>
Total Revenue	<u>\$ 9,497.4</u>	<u>\$ 9,454.5</u>

Source: Ministry of Finance financial records.

³ Gross public debt is borrowings through the issuance of debt instruments such as promissory notes and debentures. Investments in sinking funds are investments set aside for the repayment of debt.

⁴ Ministry of Finance records and Government of Saskatchewan Summary Financial Statements—*Public Accounts 2018–19 Volume 1*, Schedule 8, p. 67.

As shown in **Figures 3** and **4**, in 2018–19, the Ministry had expenses of \$0.8 billion (2018: \$0.7 billion) including \$0.3 billion for public service pension and benefits (e.g., for members of the Public Service Superannuation Plan) and \$0.4 billion for interest costs related to servicing debt.

Figure 3—Actual Expenses by Major Program

	Estimates 2018–19	Actual 2018–19
	(in millions)	
Public service pension and benefits ^A	\$ 298.8	\$ 290.6
Revenue division	27.9	22.5
Provincial comptroller	10.7	9.3
Central management and services	7.1	7.6
Budget analysis	6.2	5.5
Research and development tax credit	5.0	5.0
Treasury management	1.6	1.6
Personnel policy secretariat	0.5	0.5
Miscellaneous	<u>0.0</u>	<u>0.1</u>
Total Appropriation—Vote 18	\$ 357.8	\$ 342.7
Capital asset acquisitions	(7.5)	(4.3)
Amortization of capital assets	<u>2.1</u>	<u>2.1</u>
Total Expense—Vote 18	\$ 352.4	\$ 340.5
Debt servicing appropriation and expense—Vote 12	<u>425.6</u>	<u>427.6</u>
Total Expense	<u>\$ 778.0</u>	<u>\$ 768.1</u>

Source: *Saskatchewan Provincial Budget 18–19 Estimates* (votes 12 and 18); *Ministry of Finance Annual Report for 2018–19*; Ministry of Finance 2018–19 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 2018–19, the audited Summary Financial Statements account for these costs on an accrual basis, and include a decrease in pension and benefits costs for defined pension and benefit plans sponsored by the Ministry of Finance of \$594.1 million.

Figure 4—Actual Expenses by Object

	Estimates 2018–19	Actual 2018–19
	(in millions)	
Salaries and benefits (includes pensions)	\$ 326.4	\$ 315.5
Operating transfers	5.0	5.0
Goods and services	18.9	17.0
Debt servicing	425.6	427.6
Other	0.0	0.9
Capital asset amortization	<u>2.1</u>	<u>2.1</u>
Total Expense	<u>\$ 778.0</u>	<u>\$ 768.1</u>

Source: *Saskatchewan Provincial Budget 18–19 Estimates* (votes 12 and 18); Ministry of Finance 2018–19 financial records.



The Ministry's annual report explains significant differences between actual and estimated expenses.⁵

For the year ended March 31, 2019, Cabinet approved, through Orders in Council (special warrants), spending of \$0.2 billion; the Legislative Assembly later approved these amounts through appropriation acts.⁶

3.0 AUDIT CONCLUSIONS

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

- **The Ministry of Finance and its five agencies had effective rules and procedures to safeguard public resources except for the matter included in this chapter**
- **The Ministry of Finance and its six 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**
- **The financial statements of the six agencies were reliable⁷**

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's controls.

Our audit included the Ministry's processes to assess, estimate, collect, and record tax and resource surcharge revenues. It also included assessing its processes to record and manage cash (including its bank reconciliation procedures, and the opening and closing of bank accounts), buy and sell investments in the General Revenue Fund's sinking funds, and obtain and repay the General Revenue Fund's debt. In addition, because the Ministry depends on IT to manage its operations, the audit assessed its controls over key IT service providers, security, change management processes, and user access.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Regular and Timely Review of User Access

We recommended the Ministry of Finance perform regular reviews of its user accounts for its key tax revenue IT system. (2018 Report – Volume 2, p.37, Recommendation 1; Public Accounts Committee agreement February 26, 2019)

Status—Implemented

⁵ www.pubsaskdev.blob.core.windows.net/pubsask-prod/112651/2018-19FinanceAnnualReport.pdf (31 July 2019).

⁶ The law requires us to report when a special warrant approved the payment of public money.

⁷ Our Office does not issue a separate report on internal controls for the General Revenue Fund or the Water Security Agency Retirement Allowance Plan or a separate report on compliance with authorities for the General Revenue Fund. The General Revenue Fund does not prepare financial statements, and is not legally required to do so. The financial results of the General Revenue Fund are included in the Government's Summary Financial Statements

We recommended the Ministry of Finance follow its processes for removing unneeded user access to its information technology systems and data promptly. (2010 Report – Volume 2, p.93, Recommendation 3; Public Accounts Committee agreement May 18, 2011)

Status—Implemented

The Ministry periodically reviewed and updated user access for its key revenue IT system, and removed unneeded user access to its other key IT systems and data.

We found, during 2018–19, the Ministry reviewed user access for its key revenue IT system on a monthly basis. These reviews included all types of users to determine whether their access was appropriate.

In addition, for the individuals we tested, the Ministry removed unneeded access to its key IT systems and data promptly.

4.2 Disaster Recovery Response Developed

We recommended the Ministry of Finance confirm, in writing, processes and policies that the Information Technology Office (ITO)⁸ 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, p.357, Recommendation 2; Public Accounts Committee agreement March 13, 2007)

Status—Implemented

In 2019, the Ministry developed additional, manual procedures to continue operating if it lost the availability of certain key IT systems where it did not have a tested disaster recovery plan.

The Ministry sufficiently documented its procedures for managing operations in the event it could not access its debt and investment IT systems (such as use of Excel spreadsheets and paper documents to complete transactions and reporting). The Ministry advised us it based its new procedures on processes it used when those IT systems were unavailable for short periods during 2018 and 2019.

Planning responses for unexpected business interruptions helps to reduce the risk of not delivering critical services within a reasonable timeframe or without incurring excessive additional costs.

⁸ Effective May 2012, the Information Technology Office (ITO) was disestablished as a separate Ministry and became the Information Technology Division (ITD) of the Ministry of Central Services. The Ministry of Central Services last performed disaster recovery tests on some of the Ministry of Finance's IT systems that it hosts in 2011–12.



4.3 Better Models to Estimate Resource Surcharge Developed but Not Implemented

We recommended 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, p. 166, Recommendation 1; Public Accounts Committee agreement January 13, 2014)

Status—Quarterly estimation aspect no longer relevant; year-end estimation partially implemented

The Ministry developed and tested several models that better estimate annual resource surcharge revenue by resource type (i.e., separate models for oil and gas, potash, and uranium).⁹ At September 2019, the Ministry was not yet using these models to record resource surcharge revenue earned.

As noted in the Public Accounts, the Government relies on revenue from non-renewable resources.¹⁰ Resource surcharge (a non-renewable resource revenue) reflects about one-fifth of the Government's total non-renewable resource revenue. The bulk of the surcharge revenue is from oil and gas, potash, and uranium.

In common with accounting for other non-renewable resource revenues, the Ministry records resource surcharges based primarily on cash installments received from applicable taxpayers (e.g., resource corporations). In 2018–19, about 183 resource corporations paid resource surcharge revenue (2017–18: 171 resource corporations).

In 2018–19, recorded resource surcharge revenue was estimated at \$393.8 million, with a budget of \$317.3 million. The third quarter forecast was \$283.3 million (2017–18: recorded resource surcharge revenue at year-end \$317 million, budget \$272.5 million, and third quarter forecast of \$297.5 million).¹¹ Budgeted resource surcharge revenue is \$385 million for 2019–20, and the 2019–20 first quarter forecast was \$413.5 million.¹² As shown in **Figure 5**, the extent of difference between revenue recorded and actual revenue earned each year varies. For example, in 2016–17, the Ministry's recorded annual resource surcharge revenue from oil and gas of \$128.1 million was 9% higher than its actual revenue earned of \$117.5 million.

Since 2011, the Ministry continued to develop and test methods to better estimate these revenues (i.e., two models for oil and gas, two models for potash, and one for uranium). It tested these models over varying periods, and assessed the benefits and limitations of each.

⁹ Resource surcharge on coal is approximately \$1 million annually; therefore, Finance did not develop a model for it. Our Office assessed this as reasonable.

¹⁰ Government of Saskatchewan, *2018–19 Public Accounts—Volume 1*, p. 33; Government of Saskatchewan, *Saskatchewan Provincial Budget 18–19, On Track*, p. 70.

¹¹ Government of Saskatchewan, *2018–19 Public Accounts—Volume 1*, p. 72; Government of Saskatchewan, *Saskatchewan Provincial Budget 18–19, On Track*, p. 70; Government of Saskatchewan, *Saskatchewan Provincial Budget 19–20, The Right Balance*, p. 64; Government of Saskatchewan, *2017–18 Public Accounts—Volume 1*, p. 78; Government of Saskatchewan, *Saskatchewan Provincial Budget 17–18, Meeting the Challenge*, p. 72.

¹² Government of Saskatchewan, *Saskatchewan Provincial Budget 19–20, The Right Balance*, p. 72; Government of Saskatchewan, *2019–20 First Quarter Financial Report*, p. 10.

In 2018–19, the Ministry shared with our Office the results of its testing, along with its analysis on the limitations and uncertainties of each model. It found, like its current cash-installment method, the estimates from the models differed from actual revenue earned, particularly for each quarter. As such, it found none of the models more accurately estimated quarterly resource surcharge revenues. However, it found its models more accurately estimated annual resource surcharge revenues.

Based on our review of the Ministry's estimation models, supporting documents, and analysis, we agreed with those findings. For each model, we compared year-end revenue estimates to actual annual revenue earned in each year of the testing period.

Our comparison found the Ministry's new models more reliably estimate annual resource surcharge revenue earned than its current cash installment method. See **Figure 5** for details.

Figure 5—Comparison of Resource Surcharge Revenue Estimation Models

Percentage Difference between Actual Annual Revenue Earned and Estimated Revenue over Testing Period ^A			
Revenue Estimation Method	Average	Minimum	Maximum
Oil and Gas (Four-year testing period from 2015 to 2019)			
Current Cash Installment method	9	9	12
Oil & Gas Model #1	5	4	7
Oil & Gas Model #2	5	1	12
Potash (Nine-year testing period from 2010 to 2019 unless otherwise stated)			
Current Cash Installment method	9	1	44
Potash Model #1	0	0	1
Potash Model #2 ^B	20	17	23
Uranium (Six-year testing period from 2013 to 2019)			
Current Cash Installment method	6	1	13
Uranium Model #1	1	0	3

Source: Adapted by the Provincial Auditor's Office using Ministry of Finance financial records.

^A Actual Annual Revenue Earned is revenue recorded based on cash installments plus adjustments made in the subsequent year once actual information is known; Percentages are absolute values.

^B Percentages reflect results of testing over a two-year period from 2010 to 2012.

We also agreed with the Ministry's analysis that none of the models produced more reliable quarterly revenue estimates. This is because sufficient key information (e.g., resource sales) is not available early enough in the Ministry's fiscal year.

We found the Ministry of Energy and Resources electronically maintains useful information (e.g., oil and gas production information) to better estimate revenues. It collects some key information (e.g., potash and uranium annual returns) in the spring each year. Also, as explained in **Figure 6**, corporations paying resource surcharges must file annual returns with the Ministry of Finance within six months after their fiscal year. This means, the Ministry would receive returns for companies with a December 31 year-end in June. These returns include useful information to better estimate revenues (e.g., information about actual sales and production).

**Figure 6—Brief Description of Resource Surcharge Revenue**

The Ministry of Finance estimates resource surcharge revenue each quarter, and for the upcoming year for inclusion in Saskatchewan's Provincial Budget and quarterly financial reports. The Ministry estimates resource surcharge revenue earned primarily based on cash installments received from resource corporations and resource trusts.

It levies resource surcharges, in conjunction with corporate capital tax, each year on the value of sales of oil, natural gas, potash, uranium, and coal in Saskatchewan under *The Corporation Capital Tax Act*. The surcharge applies to resource corporations and resource trusts.

Corporations must file annual corporate capital tax returns within six months of the end of their fiscal year.

The resource surcharge rate in effect at March 31, 2019:

- 3% of the value of sales of all potash, uranium, and coal produced in Saskatchewan, and oil and natural gas produced from wells drilled in Saskatchewan prior to October 1, 2002, and;
- 1.7% for oil and natural gas produced from wells drilled in Saskatchewan after September 30, 2002.

Only corporations that expect to pay at least \$4,800 of combined corporation capital tax and resource surcharge must remit equal monthly instalments of at least 75% of the tax payable for the first fiscal year. The Ministry levies interest charges on the difference between installments remitted and taxes due.

Source: www.publications.gov.sk.ca/documents/15/11613-CT-3%20Corporation%20Capital%20Tax%20Resource%20Surcharge.pdf (24 September 2019); www.saskatchewan.ca/business/taxes-licensing-and-reporting/provincial-taxes-policies-and-bulletins/corporation-capital-tax (19 September 2019).

Implementing effective processes to estimate resource surcharge revenue more reliably would provide the Government with better information upon which to base its financial plans. It would also give legislators and the public a more accurate picture of revenue it expects to earn from resource surcharges.

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 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)

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, 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

Public Employees Pension Plan (continued):

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

Public Service Superannuation Plan (continued):

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, 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

