

Chapter 13

Saskatchewan Liquor and Gaming Authority and Saskatchewan Indian Gaming Authority

1.0 MAIN POINTS

During 2019–20, the Saskatchewan Liquor and Gaming Authority had effective rules and procedures to safeguard public resources other than the Authority needing to enforce its agreement with the Saskatchewan Indian Gaming Authority (SIGA) for receipt of the service provider controls report in a timely manner.

Without enforcing the written deadline, the Authority does not have key information to enable timely and sufficient monitoring of controls for the SIGA Casino Management System and its data. As a result, the Authority may be unaware of control deficiencies potentially impacting the completeness of SIGA's reported gaming revenues and expenses. This may impact the Authority's ability to take timely steps to mitigate the impact of deficiencies, if any.

Also, during 2019–20, SIGA had effective rules and procedures to safeguard public resources other than needing to monitor the activities of the service provider managing its Casino Management System. This increases the risk of unauthorized access to and inappropriate modifications of related systems and data that could impact the completeness of reported gaming revenue and expenses.

2.0 INTRODUCTION

2.1 Background

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

The Minister responsible for the Authority forms the one-member Board governing the Authority. Members of the Authority's management comprise the Boards of both SLGA Retail Inc. and SLGA Holding Inc.—the Authority's solely owned subsidiaries.

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

The Authority owns and operates all video lottery terminals (VLTs) in Saskatchewan. In addition, the Authority owns and manages all slot machines located in the casinos of Saskatchewan Indian Gaming Authority (SIGA). The Authority owns the VLTs and slot machines through SLGA Holding Inc.³

¹ Saskatchewan Liquor and Gaming Authority, *Saskatchewan Liquor and Gaming Authority—Plan for 2019–20*, (2020).

² SLGA Retail Inc. was approved for incorporation 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.

³ SLGA Holding Inc. was approved for incorporation under Order in Council 312/2018. It was incorporated under *The Alcohol and Gaming Regulation Act, 1997* as a wholly-owned subsidiary of the Authority on June 26, 2018. Effective September 30, 2018, it operated as a wholly-owned subsidiary under the direction of the Authority.



The Authority contracts the operation of its VLT program to Western Canada Lottery Corporation—Saskatchewan Video Lottery Division. It also contracts the operation of slot machines at SIGA casinos (including the operation of a related Casino Management System) to SIGA.

SIGA is a non-profit established under *The Non-Profit Corporation Act, 1995*. Its members are the Federation of Sovereign Indigenous Nations (FSIN), the Tribal Councils of Saskatchewan, and independent First Nations.

SIGA, under licences issued by the Authority, operates seven casinos located on First Nations' reserves. They are: Bear Claw Casino, Dakota Dunes Casino, Gold Eagle Casino, Living Sky Casino, Northern Lights Casino, Painted Hand Casino, and Gold Horse Casino (reserve status pending as of March 2020).⁴ SIGA's casino operations include slot machines, table games, and ancillary operations (i.e., gift shops, restaurants, lounges, and a hotel).

As required by the *Criminal Code of Canada* (section 207), the Authority is responsible for the overall conduct and management of slot machines in SIGA's casinos.

Revenue from slot machines belongs to the Authority. The Casino Operating Agreement between SIGA and the Authority sets the calculation of slot machine revenue belonging to the Authority.⁵ The Authority allows SIGA to deduct reasonable costs from slot machine revenue; the Authority's financial statements include SIGA's revenue and expenses.

2.2 Financial Overview

In 2019–20, the Authority generated revenue of just over \$1 billion, expenses of \$0.6 billion, and comprehensive income of almost \$0.5 billion. At March 31, 2020, the Authority held consolidated assets and liabilities each worth \$0.3 billion.

Figure 1 shows the Authority's key financial results by segment—liquor, VLTs, slot machines, other gaming, and cannabis.

Figure 1—Authority's Key Financial Results for 2019–20 by Segment

	Liquor	VLT	Slot Machines SIGA Casinos	Other Gaming	Cannabis	Total
	(in millions)					
Total Revenue ^A	\$ 636.4	\$ 213.9	\$ 234.6	\$ 1.3	\$ 0.2	\$ 1,086.4
Total Expense	375.3	58.6	163.3 ^B	12.9	3.0	613.1
Total Comprehensive Income (Loss)	\$ 261.1	\$ 155.3	\$ 71.3	\$ (11.6)	\$ (2.8)	\$ 473.3

Source: Adapted from Saskatchewan Liquor and Gaming Authority's 2019–20 consolidated financial statements.

^A Includes other comprehensive income/loss.

^B Under the Casino Operating Agreement, the Authority allows SIGA to deduct reasonable costs incurred from slot machine revenue in accordance with the operating policies approved by the Authority.

⁴ In 2002, the Government of Saskatchewan and the FSIN signed the 2002 Framework Agreement. It allows for the development and operation of casinos in Saskatchewan within the parameters of the *Criminal Code of Canada*. In 2017, the Government of Saskatchewan and the FSIN extended the 2002 Framework Agreement to June 11, 2037.

⁵ SIGA and the Authority signed a Casino Operating Agreement, effective June 11, 2002 to June 11, 2027. Under the Agreement, the Authority allows SIGA to deduct reasonable costs incurred from slot machine revenue in accordance with the operating policies approved by the Authority.

Figure 2 shows SIGA's key financial results by segment—slot machine operations, table game operations, and ancillary operations.

Figure 2—SIGA's Key Financial Results for 2019–20 by Segment

	Slot Machine Operations	Table Game Operations	Ancillary Operations	Elimination of Intercompany Transactions	Total
	(in millions)				
Total Revenue	\$ 236.4	\$ 14.1	\$ 23.5	\$ (3.2)	\$ 270.8
Total Expense	149.3	17.4	34.4	(3.2)	197.9
Profit (loss) before the following:	\$ 87.1	\$ (3.3)	\$ (10.9)	\$ --	\$ 72.9
Unrealized (loss) on interest rate swaps ^A					\$ (1.7)
Total net income and comprehensive income for the year before distribution to the Authority					\$ 71.2

Source: Adapted from Saskatchewan Indian Gaming Authority's 2019–20 financial statements.

^A Unrealized gain (loss) on interest rate swaps is the amount of change in the fair value of the swaps in a fiscal year.

3.0 AUDIT CONCLUSIONS

Our Office worked with Deloitte LLP, the appointed auditor, to carry out the audit of SIGA. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.⁶

In our opinion, for the year ended March 31, 2020, we found, in all material respects:

- **The Saskatchewan Liquor and Gaming Authority and Saskatchewan Indian Gaming Authority each had effective rules and procedures to safeguard public resources, except for the matters included in this chapter**
- **The Saskatchewan Liquor and Gaming Authority, SLGA Retail Inc., SLGA Holding Inc., and Saskatchewan Indian Gaming Authority each complied with the following authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Authority:

The Alcohol and Gaming Regulation Act, 1997
The Alcohol Control Regulations, 2016
The Cannabis Control (Saskatchewan) Act
The Cannabis Control (Saskatchewan) Regulations
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 Act*⁷
The Customs Tariff Act (Canada)
Excise Act (Canada) (Schedule I, II, 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

⁶ See our website at www.auditor.sk.ca.

⁷ SLGA Retail Inc. is responsible to impose and collect Liquor Consumption Tax (LCT); the Authority remits LCT on behalf of SLGA Retail Inc.



SIGA:

The Non-Profit Corporations Act, 1995
The Non-Profit Corporations Regulations, 1997
The Alcohol and Gaming Regulation Act, 1997
The Gaming Regulations, 2007
Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)
Proceeds of Crime (Money Laundering) Suspicious Transaction Reporting Regulations (Canada)

2002 Framework Agreement, as amended
2002 Casino Operating Agreement, as amended
Terms and Conditions for SIGA Table Games (issued by Indigenous Gaming Regulators Inc.)⁸
SIGA Slot Machine Operating Procedures and Directives (issued by the Authority)
SIGA Operating Policies and Directives (issued by the Authority)
SIGA Bylaws

SLGA Retail Inc.:

The Alcohol and Gaming Regulation Act, 1997
The Business Corporations Act
The Business Corporations Regulations
The Environmental Management and Protection Act, 2010 (Section 40)
The Environmental Management and Protection (General) Regulations (Section 12)

The Executive Government Administration Act
The Financial Administration Act, 1993
The Liquor Consumption Tax Act
Orders in Council issued pursuant to the above legislation

SLGA Holding Inc.:

The Alcohol and Gaming Regulation Act, 1997
The Gaming Regulations, 2007
The Executive Government Administration Act, 1993

The Financial Administration Act, 1993
Orders in Council issued pursuant to the above legislation

➤ **The Saskatchewan Liquor and Gaming Authority, SLGA Retail Inc., SLGA Holding Inc., and Saskatchewan Indian Gaming Authority each had reliable financial statements**

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

We used the control framework included in COSO's *Internal Control—Integrated Framework* to make our judgments about the effectiveness of the Authority's and SIGA'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.

The audit of the Authority included examining its financial-related controls used to administer revenue and expenses, safeguard assets, keep reliable financial records consistent with related authorities, prepare reliable financial reports/statements, and monitor SIGA's operations. This included evaluating its significant IT systems and processes, and assessing the work of its Gaming Integrity Branch and Audit Services Branch with respect to compliance with legislation over liquor and gaming activities in the province. The audit also included examining the adoption of International Financial Reporting Standards 16—Leases, and testing the Authority's implementation of its new point-of-sale system in retail stores.

In addition, the audit included assessing the appropriateness of accounting for significant related party transactions with SLGA Retail Inc. and SLGA Holding Inc., the accuracy of the year-end consolidation adjustments, and the elimination of inter-entity transactions.

Because SIGA operates in the casino industry, it processes a significant number of cash transactions and holds a significant amount of cash in its casinos. As a result, the audit of SIGA paid particular attention to its controls for managing cash in casinos. This included

⁸ Indigenous Gaming Regulators Inc. is an institution of FSIN; it licenses and regulates on-reserve charitable gaming in Saskatchewan, including table games at SIGA casinos.

assessing its processes for approving and recording transactions, and monitoring staff compliance with established procedures to safeguard cash. Also, because SIGA relies on IT to manage its operations, the audit included assessing its controls over key IT service providers, IT security, change management processes, and user access.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Need to Enforce Agreement for Receipt of the Service Provider Controls Report

We recommended the Saskatchewan Liquor and Gaming Authority establish a written agreement with Saskatchewan Indian Gaming Authority indicating when it will receive the audit report on controls for the SIGA Casino Management System. (2019 Report – Volume 2, p. 94, Recommendation 1; Public Accounts Committee has not yet considered this recommendation as of November 2, 2020)

Status—Partially Implemented

In July 2019, the Authority signed an agreement with SIGA about receiving an audit report on the effectiveness of controls for the SIGA Casino Management System within 40 days following March 31 (i.e., by May 10 annually). The Authority received the 2020 audit report on June 1, 2020.

The Authority's management uses key information in the audit report to assess the controls used to protect the SIGA Casino Management System and its data (e.g., details of cash collected and paid out by the slot machines), and to identify steps necessary to mitigate areas of concern, if any.

Without enforcing the written deadline, the Authority does not have key information to enable timely and sufficient monitoring of controls for the SIGA Casino Management System and its data. As a result, the Authority may be unaware of control deficiencies potentially impacting the completeness of SIGA's reported gaming revenues and expenses, and take timely steps to mitigate the impact of deficiencies, if any.

4.2 Monitoring of SIGA's Service Provider Needed

We recommended the Saskatchewan Indian and Gaming Authority monitor activities of its service provider that manages its Casino Management System. (2019 Report – Volume 2, p. 94, Recommendation 2; Public Accounts Committee has not yet considered this recommendation as of November 2, 2020)

Status—Not Implemented

SIGA does not have processes in place to sufficiently monitor activities of its service provider (e.g., ensure access to the Casino Management System is authorized and appropriate, as well as to identify any changes made and not reported to SIGA).



Without monitoring activities of its service provider, SIGA does not know whether access to its Casino Management System by the service provider is appropriate and whether any unauthorized changes to its system occur. This increases the risk of unauthorized access to and inappropriate modifications of systems and data that could impact the completeness of reported gaming revenues and expenses.

4.3 SIGA Review of User Access Completed

We recommended the Saskatchewan Indian Gaming Authority perform regular reviews of its computer application user accounts. (2010 Report – Volume 2, p. 260, Recommendation 2; Public Accounts Committee agreement January 20, 2011)

Status—Implemented

During 2019–20, SIGA reviewed user access of its financial system. Subsequent to year-end, SIGA reviewed user access for its Casino Management System.

Timely reviews of IT user access determine whether access granted is consistent with each employee's job responsibilities and is appropriate. Lack of regular and timely reviews of IT user access increases the risk of unauthorized access to and inappropriate modifications to systems and data.