

Chapter 4 Energy and Resources

1.0 MAIN POINTS

This chapter reports the results of our annual audit of the Ministry of Energy and Resources and its three special purpose funds for the year ended March 31, 2021. Each fund complied with authorities governing their activities and their 2020–21 financial statements are reliable.

The Ministry complied with authorities governing its activities and had effective rules and procedures to safeguard public resources other than it needs to:

- Obtain approval required by *The Executive Government Administration Act* for the grant payments it makes under the Accelerated Site Closure Program (Program) intended to clean up about 8,000 inactive oil and gas wells. During the year, the Ministry transferred \$125 million to its Program service provider without obtaining this required approval.
- Obtain sufficient information of actual, eligible costs incurred by year-end to enable it to update its financial records and record accurate and complete revenue for the Program. At March 31, 2021, we found the Ministry understated Program revenue by \$3.5 million.
- Formally identify and evaluate Program risks to more effectively manage risks that may prevent it from achieving the Program objectives.
- Approve the roles and responsibilities for its committee used to oversee the Program and maintain records of this committee's activities and decisions to enable it to demonstrate it is effectively overseeing the Program (e.g., document changes to Program policies and processes, document direction it provided to the Program service provider, document review of key Program reports used to monitor the Program).

2.0 INTRODUCTION

2.1 Background

The Ministry of Energy and Resources develops, coordinates and implements policies and programs to promote the growth and responsible development of the province's natural resources industries.¹ The Ministry also operates as the primary regulatory authority for the oil and gas industry, and ensures competitive royalty systems as well as regulations and policies for all natural resources sectors. In addition, the Ministry plays an important role in promoting Saskatchewan's diverse resource potential to investors around the world.²

¹ Ministry of Energy and Resources, *Annual Report for 2020–21*, p. 4.

² *Government of Saskatchewan, 2020–21 Estimates*, p. 47.



2.2 Financial Overview

In 2020–21, the Ministry recorded \$916.2 million in revenues, including \$59.8 million in transfers from the Federal Government for its Accelerated Site Closure Program (see **Figure 1**).

It incurred expenses of \$173.3 million to deliver its programs and services (see **Figure 2**). The Ministry's *Annual Report for 2020–21* provides information about its revenues and expenses, including reasons for differences between actual and planned.³ Also, at March 31, 2021, the Ministry had a liability of \$84.3 million to clean up contaminated and abandoned uranium mines (e.g., Gunnar site).

Figure 1—Revenues by Source

	Estimates 2020–21	Actual 2020–21
	(in millions)	
Oil	\$ 171.6	\$ 369.8
Crown Land Sales	12.5	6.7
Natural Gas	3.5	8.4
Potash	469.4	423.1
Uranium	46.6	4.2
Other Minerals	41.4	33.9
Mineral Rights Tax	9.5	9.7
Sales, Services, and Service Fees	0.3	0.4
Other Miscellaneous Revenue	0.1	0.2
Transfers from the Federal Government ^A	150.0	59.8
Total Revenue	\$ 904.9	\$ 916.2

Source: Ministry of Energy and Resources, *Annual Report for 2020–21*, p. 21.

^A Revenue recorded for the Accelerated Site Closure Program.

Figure 2—Major Programs and Spending

	Estimates 2020–21	Actual 2020–21
	(in millions)	
Central Management and Services	\$ 20.2	\$ 19.9
Energy Regulation ^A	163.4	142.1
Resource Development	41.3	30.4
Total Appropriation	224.9	192.4
Remediation of Contaminated Sites	(28.8)	(19.1)
Capital Asset Acquisition	(3.3)	(3.5)
Capital Asset Amortization	3.6	3.5
Total Expense	\$ 196.4	\$ 173.3

Source: Ministry of Energy and Resources, *Annual Report for 2020–21*, p. 20.

^A Energy regulation includes \$129 million of actual expenses for the Accelerated Site Closure Program (\$125 million transferred to its service provider for program funding and \$4 million for program administration fees).

³ Ministry of Energy and Resources, *Annual Report for 2020–21* publications.saskatchewan.ca/api/v1/products/113765/formats/128172/download (22 August 2021).

2.3 Accelerated Site Closure Program

In fiscal 2020–21, the oil and gas industry faced financial challenges from low commodity prices and the COVID-19 pandemic. To support the oil and gas industry, the Federal Government provided Saskatchewan with \$400 million in federal funding to stimulate economic activity and employment by assisting in the clean up of inactive oil and gas wells.⁴ As a result, the Ministry launched its Accelerated Site Closure Program (the Program). The Ministry expects the Program will pay for the oil and gas industry to abandon and reclaim the equivalent of 8,000 inactive wells and support approximately 2,100 jobs in the oil and gas service sector for the Program’s duration, which ends in February 2023.^{5,6}

In July 2020, the Ministry signed an agreement with a service provider, the Saskatchewan Research Council (SRC), to administer the Program’s daily operations. In addition, the Ministry of SaskBuilds and Procurement assists in identifying eligible oil and gas service companies to participate in the Program.

By the end of 2020–21, the Program saw 1,240 inactive wells abandoned/decommissioned, 220 flowlines abandoned, 12 facilities decommissioned and the completion of more than 1,905 site reclamation activities.⁷

Having developed the Program quickly increased the risk of the Ministry insufficiently designing or inconsistently following effective internal controls to administer the Program.

2.4 Special Purpose Funds

The Ministry is responsible for the following funds with March 31 year-ends:

- Oil and Gas Orphan Fund
- Institutional Control Monitoring and Maintenance Fund
- Institutional Control Unforeseen Events Fund

3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2021, we found, in all material respects:

- **The Ministry of Energy and Resources had effective rules and procedures to safeguard public resources except as noted in this chapter**

⁴ The Federal Government announced this support funding in mid-April 2020.

⁵ Ministry of Energy and Resources, *Annual Report for 2020–21*, p. 6.

⁶ Abandonment of oil and gas wells refers to pumping cement into the well-hole to prevent any subsurface formation containing gas or fluids from leaking below ground or escaping above ground. Inactive wells refers to wells without any reported production, injection, or disposal activities for 12 consecutive months or longer.

⁷ Ministry of Energy and Resources, *Annual Report for 2020–21*, p. 6.



- **The Ministry of Energy and Resources and each of its funds complied with the following authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing, except as noted in this chapter:**

<i>The Crown Minerals Act</i>	<i>The Ministry of Energy and Resources Regulations, 2018</i>
<i>The Coal Disposition Regulations, 1988</i>	<i>The Financial Administration Act, 1993</i>
<i>The Crown Mineral Royalty Regulations</i>	<i>The Petroleum Research Incentive Regulations</i>
<i>The Crown Oil and Gas Royalty Regulations, 2012</i>	<i>The Petroleum Innovation Incentive Regulations</i>
<i>The Delayed Payment Charge Regulations, 1970</i>	<i>The Oil and Gas Processing Investment Incentive Regulations</i>
<i>The Oil and Gas Tenure Registry Regulations, 2016</i>	<i>The Mineral Taxation Act, 1983</i>
<i>The Subsurface Mineral Royalty Regulations, 2017</i>	<i>The Freehold Coal Production Tax Regulations</i>
<i>The Subsurface Mineral Tenure Regulations</i>	<i>The Mineral Rights Tax Regulations, 1998</i>
<i>The Waterflood Development Program Regulations</i>	<i>The Potash Production Tax Regulations</i>
<i>The Weyburn Unit CO₂ Crown Oil Royalty Regulations</i>	<i>The Oil and Gas Conservation Act</i>
<i>The Energy and Mines Act</i>	<i>The Oil and Gas Conservation Regulations, 2012</i>
<i>The Targeted Mineral Exploration Incentive Regulations</i>	<i>The Public Service Act, 1998</i>
<i>The Freehold Oil and Gas Production Tax Act, 2010</i>	<i>The Purchasing Act, 2004</i>
<i>The Freehold Oil and Gas Production Tax Regulations, 2012</i>	<i>The Revenue and Financial Services Act</i>
<i>The Recovered Crude Oil Tax Regulations, 2012</i>	<i>The Reclaimed Industrial Sites Act</i>
<i>The Executive Government Administration Act</i>	<i>The Reclaimed Industrial Sites Regulations</i>
	Orders in Council issued pursuant to the above legislation

- **The financial statements of each fund are 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'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.

We focused our audit effort on the following areas of the Ministry:

- **Royalty revenues:** internal controls relating to the estimating, collecting, and recording of non-renewable resources' revenues and related receivables, including assessing the reasonableness of significant accounting estimates for revenues (e.g., royalties, taxes, revenue incentive credits)
- **Information Technology systems:** user access, change management, and recovery processes for key financial IT systems (e.g., IRIS, Petrinex)
- **Abandoned uranium mine clean up:** controls to estimate its environmental liability, and processes to oversee the ongoing work to clean up these sites (e.g., Gunnar)
- **Accelerated site closure program revenue:** internal controls to record revenue, Ministry revenue recognition policy to account for this specific federal funding, and the Ministry's compliance with the Federal Government's stipulations to keep this funding
- **Accelerated site closure program expenses:** internal controls for making payments and recording program grant expenses, policy to account for these grants, and verifying that payments made were for eligible expenses

- **Monitoring accelerated site closure program:** processes used to oversee the program (e.g., objectives, risks, reported results, oversight of the service provider)
- **Risks associated with COVID-19:** internal controls related to new programs or changes made to existing programs, changes to IT controls (e.g., more staff using remote access), and financial risks such as collectability of receivables
- **Licensee Liability Rating (LLR) program:** internal controls relating to the financial processes to estimate, bill, and collect security deposits from oil and gas producers

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Identification and Mitigation of Program Risks Needed

The Ministry of Energy and Resources has not formally identified and assessed possible risks in achieving its Accelerated Site Closure Program objectives.

The Ministry established its objectives in its Program Administration Policy in May 2020. We found the objectives consistent with the requirements from the Federal Government. See **Figure 3** for a summary of the Program objectives.

Figure 3—Accelerated Site Closure Program Objectives Summary

- Put Saskatchewan people and service companies back to work in the struggling oil and gas services sector
- Abandon and reclaim inactive oil and gas infrastructure in Saskatchewan
- Ensure Program funding is spent across various oil and gas producing regions in Saskatchewan
- Support Indigenous involvement in the delivery of clean-up services
- Support oil and gas well abandonment and cleanup of projects on Indigenous lands
- Enable landowners to nominate well sites for consideration in the Program
- Ensure payment of municipal taxes and landowners' surface lease payments are considered for eligibility at points in the Program

Source: Ministry of Energy and Resources' *Accelerated Site Closure Program—Program Administration Policy*.

As of March 31, 2021, we found the Ministry did not have a formal risk management plan. We also did not find documented evidence in other Ministry sources (e.g., Program documents, Ministry-level risk assessments) identifying and assessing risks to the Program.

The Ministry indicated it considered risks during regular meetings with SRC and the Ministry of SaskBuilds and Procurement. However, the Ministry did not keep meeting minutes, so we were unable to observe a record of discussion and any decisions made during those meetings. See **Section 4.2** for further information.

The Ministry is subject to risks associated with meeting its Program objectives and the requirements imposed by the Federal Government on how to use its funding. The speed at which the Ministry rolled out the Program increases the risk of the Ministry insufficiently implementing and monitoring the Program, including identifying and assessing Program risks.



The Program is complex with numerous parties involved. See **Figure 4** for a summary of Program processes. Some examples of risks that may prevent or reduce the Ministry's ability to meet program objectives include lack of qualified service company capacity available in the market, inability to use all \$400 million program funding by the stated deadline, and/or licensees or service companies submitting invoices for ineligible expenses.

Without having a formal risk mitigation plan, the Ministry may not identify or sufficiently manage risks that may prevent it from achieving its Program objectives leading to Program inefficiencies (e.g., not attaining maximum benefit from the \$400 million federal funding). Also, the Ministry has to repay any federal funding not used on eligible Program expenses prior to the end of the Program (February 2023).

1. We recommend the Ministry of Energy and Resources formally identify and evaluate risks for the Accelerated Site Closure Program.

After March 31, 2021, we observed the Ministry started to formally identify risks in June 2021.

Figure 4—Accelerated Site Closure Program Process Summary

- The Ministry set the Program requirements, including eligibility criteria for oil and gas licensees (i.e., the oil and gas companies that own the wells) to receive an allocation of program funding, and the oil and gas service companies (i.e., the companies that do clean-up work) that can participate in the Program
- The Ministry determines the allocation of program funding to licensees
- The Ministry of SaskBuilds and Procurement developed a list of qualified service companies
- Licensees nominate wells for clean up using Program resources
- SRC analyzes nominated wells and establishes groups of wells to be efficiently remediated
- SRC enters into contracts with the licensees for well clean up
- Licensees enter into contracts with service companies to do clean-up work
- Service companies provide invoices for completed work to licensees for approval^A
- Licensees provide approved invoices to SRC for payment
- SRC reviews, and if appropriate, reimburses the actual, eligible costs by making payment to the service companies
- SRC completes all cost and performance monitoring reporting (e.g., monthly reports to the Ministry)
- The Ministry uses SRC's reports to monitor the program and prepare a summarized report to release publicly on its website

Source: Developed by the Provincial Auditor of Saskatchewan.

^A This is important as the licensee remains responsible for managing and monitoring its wells and operations at all times. The licensee is responsible for managing the clean-up project, monitoring service company performance, and approving invoices before providing to SRC for payment.

4.2 Improvements Needed to Program Steering Committee

We found the Ministry of Energy and Resources had neither an approved charter for its Accelerated Site Closure Program Steering Committee, nor kept a detailed record (e.g., minutes) of decisions made during Committee meetings.

The Ministry established a Steering Committee to develop and monitor the Accelerated Site Closure Program. The Committee consisted of representatives from the Ministry, SRC, and the Ministry of SaskBuilds and Procurement, including members of senior management (e.g., Assistant Deputy Minister, SRC executive).

From review of calendars, agendas, emails, and discussion with management, we found the Committee met frequently (e.g., daily) during the beginning of the Program. Meetings became less frequent as the Program became more established. For example, the Committee moved to two meetings per week in December 2020.

The Ministry drafted a Steering Committee Charter to set the roles for the Committee. Some examples of the Committee's roles included enabling transfer of information between the Ministry and SRC, and determining the appropriate structure of contracts for services over the Program's duration (i.e., Program contracts between SRC and licensees).

The Steering Committee is important as it is a key forum to review Program progress and oversee SRC (e.g., review monthly financial and operational reports from SRC), document approval of or changes to key processes or documents (e.g., changes to program policies or processes), and discuss issues or risks that arise and decisions made to manage them.

Without an approved Charter, the Committee's role may be unclear or the Committee may not perform all roles senior management wants it to.

2. We recommend the Ministry of Energy and Resources finalize and approve its Accelerated Site Closure Program Steering Committee Charter.

After March 31, 2021, management indicated the Ministry approved the Steering Committee Charter in September 2021.

We also found that the Committee did not keep detailed records (e.g., minutes) of discussions held during Committee meetings and any decisions made. Not keeping adequate records of discussions during committee meetings may result in an increased risk that key information from discussions held during meetings and decisions made are forgotten or lost, and does not facilitate transfer of information when staff turnover occurs. Also, since the Committee reviews and approves reports pertaining to the Program, this absence of documentation results in a lack of evidence that senior management reviewed Program progress reports.

3. We recommend the Ministry of Energy and Resources maintain a written record of Accelerated Site Closure Program Steering Committee meeting activities and decisions.

After March 31, 2021, we observed the Ministry started to keep minutes from these meetings in May 2021.

4.3 Order in Council for Significant Agreements Needed

The Ministry of Energy and Resources did not obtain the required Lieutenant Governor in Council approval (via Order in Council) before making significant grants to the Saskatchewan Research Council to finance the Accelerated Site Closure Program.

Authorities the Ministry must follow require it to obtain certain approvals before making grants. See **Figure 5**.

**Figure 5—The Executive Government Administration Act Summary****Section 16**

(1) Subject to subsection (3), a minister may, for any purpose relating to any matter under the minister's administration or for which the minister is responsible, make grants to any person, agency, organization, association, institution or body within or outside Saskatchewan.

(2) A minister may set terms or conditions on a grant made pursuant to this section.

(3) **A minister shall obtain the approval of the Lieutenant Governor in Council before making any grant pursuant to subsection (1) if:**

(a) the amount of the grant is greater than \$50,000; or

(b) the total amount of the grant and any other grant made by that minister to that person, agency, organization, association, institution or body would be greater than \$50,000 in any fiscal year.

Source: *Executive Government Administration Act, E-13.1*, publications.saskatchewan.ca/#/products/70999 (22 August 2021).

In July 2020, the Ministry signed an agreement with the Saskatchewan Research Council, contracting SRC to administer the Program (e.g., sign agreements with licensees, provide funding, perform administrative duties). It did not obtain the required approval at that time.

In August 2020, the Ministry made its first grant payment of \$15 million to SRC to fund Program costs. It did not obtain the required approval above prior to making this payment. In total, the Ministry paid SRC \$125 million for Program costs during 2020–21.

The Ministry violated its governing legislation as it did not obtain Lieutenant Governor in Council approval (Order in Council) before making significant grants to SRC. Without obtaining this required approval, the Ministry will continue to make significant Program grant payments while not complying with its governing legislation.

- 4. We recommend the Ministry of Energy and Resources obtain the approval required by *The Executive Government Administration Act* for its grant payments made under the Accelerated Site Closure Program.**

4.4 Adequate Support for Accelerated Site Closure Program Revenue Required

The Ministry of Energy and Resources did not receive adequate support from its service provider for it to record accurate and complete revenue for its Accelerated Site Closure Program for the year ended March 31, 2021.

The Ministry updates its financial records by recording revenue (and reducing unearned revenue) based on SRC's actual, eligible Program expenses incurred (invoices paid or received). The Ministry's agreement with SRC requires SRC to provide it with monthly financial reports for this purpose. Financial reports during the year are due on the last business day of each month. For fiscal year-end reporting at March 31, this report is contingent on cut-off timeframes to be provided to SRC.

We did not observe written evidence of the Ministry finalizing and providing instructions to SRC on when and how to prepare the year-end financial report. Instead, the financial report for March 2021 followed the same monthly reporting requirements as other months. This led to lack of clear direction of when the Ministry expected to receive the year-end financial report, and what information the Ministry expected it to include (e.g., report summing up all Program invoices received on/by March 31).

We found the Ministry did not receive appropriate support from SRC. It received a report from SRC listing the invoices paid and captured in its electronic tracking system before the end of day on March 31, 2021 (\$52.8 million). Then, in an email, SRC provided an estimated, unsupported amount for invoices received on/by March 31, 2021, but not yet paid, and not yet in its electronic tracking system (\$7 million; totalling \$59.8 million).

We were unable to receive further support from the Ministry. We completed alternate auditing procedures by comparing the Ministry's recorded revenue to the SRC's audited financial statements, which recorded \$63.3 million in Program expenses. We found the Ministry's revenue was understated by \$3.5 million.⁸

Without appropriate invoice support of all actual eligible Program costs incurred by March 31, the Ministry is at risk of recording inaccurate Program revenues. Without adequate support, the Ministry has limited assurance over the accuracy and completeness of its financial records. This increases the risk of the Ministry recording too much or not enough Program revenue.

- 5. We recommend the Ministry of Energy and Resources obtain sufficient documentation to record accurate and complete revenue for the Accelerated Site Closure Program.**

4.5 Funding Allocations Distributed Fairly to Licensees

We found the Ministry of Energy and Resources quickly developed a fair, transparent process for the Ministry to allocate funds to oil and gas producers (i.e., licensees) to clean up inactive oil and gas wells.

In fiscal 2020–21, the Ministry developed processes to allocate the \$400 million in federal funding to licensees that applied for Program funding. The Ministry based its funding allocations on the total inactive liability amount in the Licensee Liability Rating.⁹ In addition, for the Ministry to consider a licensee as eligible for funding, the licensee could not have an outstanding debt to the Crown (e.g., fees owing to the Ministry of Agriculture and/or Ministry of Environment for surface leases).

The minimum allocation to a licensee is \$50,000.

4.6 Work Packages Addressed the Needs of the Program

We found the Ministry of Energy and Resources and SRC developed work-package contracts with licensees that appropriately addressed the needs and requirements of the Program.

Both the Ministry and SRC worked to create contract templates (i.e., work-package contracts). Licensees submitted applications that included budgeted amounts of funding needed for the licensee to reclaim its nominated inactive oil and gas wells. Once assessed as eligible, the licensees and SRC enter into an agreement using the appropriately worded,

⁸ This resulted in an understatement of revenue in the 2020–21 Summary Financial Statements.

⁹ The License Liability Rating is a calculation performed by the Ministry based on the inventory of all wells and facilities held by a licensee to estimate the future cost to abandon and reclaim all the wells/facilities of that licensee.



work-package contract. The work-package contract identifies which sites are approved for clean up and the funding available to the licensee. Licensee's have the potential for multiple work packages (based on site locations) for each phase of the program.

SRC assigns unique identification numbers to each work package for easy reference.

4.7 Payments Made to Licensees Appropriately Approved and Supported

The Ministry of Energy and Resources had an adequate process in place to verify licensees met Program requirements, the Ministry appropriately approved invoices in accordance with its delegation of authority, and SRC approved and paid eligible actual expenses.

We tested 31 service company invoices SRC paid for completed Program work.

We found:

- The Ministry approved eligible licensees for Program funding
- SRC verified work packages contained well locations geographically near each other for efficiency purposes
- SRC properly approved work-package contracts in accordance with its delegation of authority
- The Ministry, SRC, and the Ministry of SaskBuilds and Procurement had effective processes to seek and approve eligible service companies consistent with Program requirements
- Licensees used eligible service companies
- SRC verified licensees approved service company invoices for work completed prior to submitting to SRC for payment
- SRC verified only eligible expenditures were claimed and costs were agreed to rates established for the Program
- SRC made timely payments for approved invoices (within 30 days)

The Ministry made four payments during 2020–21 to advance money to SRC to finance the Program. We tested all four payments and found the Ministry approved these payments in accordance with its delegation of authority.